

reference



Megaliths at Callanish

Ancient monuments

by WILLIAM PACKER

until May 2 are both consisting of megaliths, both of which are full of intricate carvings and designs. The quality of the work is extraordinary, and they do not seem to have been made by the same people as the other monuments in the area. The quality of the work is extraordinary, and they do not seem to have been made by the same people as the other monuments in the area.

The Entertainment Guide is on Page 8

academic, since when they have been the constant preoccupation of Maria Reiche, by now the leading authority on them. She has collaborated with the Kunstraum, Munich, in preparing this exhibition and publishing the catalogue. The exhibition is touring the country under the auspices of the Arts Council.

Wigmore Hall

Rosa Barbany

by RONALD CRICHTON

A programme of Spanish songs from roughly the turn of the century to the present day is always in danger of making the same impression, that Granados and Falla stand well above the minor figures using the same limited language with fluency, ingenuity and bursts of distinction. Friday's recital by the mezzo Rosa Barbany, who has studied in Italy and London (with Roy Henderson) as well as in her native Barcelona, was no exception. The second half of her programme was a centenary tribute to Falla. The first half brought one or two unfamiliar songs - Górriz's "No quiero tus avelanas," Mompo's "Lluve sobre el río," dedicated to this singer, and a "Minúo cantado" by Nin.

Coliseum

Dancing Space

by CLEMENT CRISP

Barry Moreland's latest creation for Festival Ballet received its first London performance on Friday night. Set to Mozart's K.467 piano concerto, *Dancing Space* is a plotless ballet for six dancers: Gaye Fulton, Patricia Ruane, Judith Rowan, Paul Clarke, Peter Brewer and Kerison Cooke. Cecilia Doidge's designs are simple: a cyclorama cloth in blue against which the men wear blue leotards, the women restrained blue dresses. Our attention is thus concentrated upon Mr. Moreland's treatment of the score, with its delicate interplay between the dancers. His moods and hints of feeling. The language is not classic, lyrical, and in the first and third movements it has a pleasing air of happy encounters of young people dancing freely and happily on the music's surface. Ballets of this kind to established masterworks are intensely difficult to bring off: alone, Balanchine seems to have found the perfect way of coping with both musical form and texture, feeding his choreography from the music's qualities, often in concertante style with soloists framed and supported by a subordinate ensemble.

Arts news in brief

Bugay Malone has been selected as the official British entry in competition at the Cannes Film Festival. Bugay Malone was written and directed by Alan Parker. The producer is Alan Marshall. Words and music are by Paul Williams.

Amateur Theatre Festival at Ealing

The International Amateur Theatre Week will be held at the Questors Theatre, Ealing, from May 1-8. This is the fourth such week to be held there, and this year it is sponsored by Canada Dry (U.K.) Ltd.

ting for Godot

by B. A. YOUNG

Court's season (musical) Beckwith begins a visit from the production of the play. It is directed by the author, and so may be regarded as a no attempt to figures of admirer. As Horst Steiner Wigger, I am almost like Jagger's Vladimir, who wears about his man, his torso, his rooping shoulder, light arm much as left, his fingers at improbable and's Extraneous, a posed on a pair sers a world too andy legs. Their, artificial, often if they were a bleat. They are and Hardy: they Jeff.

Eric Hope

by DOMINIC GILL

who recital on f Hope offered a f Beethoven and nly, uneventfully gagingly played- of the kind one sed to hear from a friend's house somewhat clouded from time to time rubate quirks, but asible, forthright e quirk in particu slowing down to mpo for not all, reate, bars of the t of the Pathétique movement seemed but inexplicable. n's op. 110 he gave exposition-one memory lapse in the to the arioso ex- r than a reading f us any closer to us heart of the was interesting to e's two early Beel- both of them un- a British Museum of the indefatigable

Menuhin

Yehudi Menuhin's 60th birthday was celebrated in London on Friday evening by a recital of Bach, Bartok and Beethoven violin sonatas played with his pianist son Jeremy. From the large audience, the warmth of welcome and later of respect could have been predicted. But it was also a musically happy occasion, one on which ease and accuracy of technique as well as nobility of spirit descended on Menuhin's violin by no means always the case in recent years. After a Manchester concert in the mid-1960s, Neville Cardus discerned that the art of the violinist then just into his twenties had grown "wiser and sadder." The marvellous thing about Friday's performance of Beethoven's G major Sonata, Op. 98, was its fusion of wisdom and serenity, purged of exterior show or fuss, instinctively at one with (and within) the inward manner of this most contemplative of Beethoven violin sonatas. If by such can be understood Cardus's sense of the word sadness, then Menuhin has in the intervening 40 years grown as wise as Solomon and as sad as Niobe.

LPO by MAX LOPPERT

The high tally of spring indispositions among musicians was increased last Thursday by Carlo Maria Giulini, with Edward Downes a brave late replacement to direct Giulini's London Philharmonic Orchestra concert and programme. One imagines, from the number of rough edges in Dvorak's D minor Symphony and the knobby finish to slow movement phrases and staccato, that Mr. Downes's rehearsal period must have been brief. Even so, he and the orchestra powerfully caught the pulse of Dvorak's most powerful symphony—particularly in the Finale the rhythms gathered impressive weight. Brahmsian in the helpful sense, and elsewhere there was toughness and true symphonic force, if not much of lyrical easing or grace.

ings, often chopping them with breaths (a surprise indeed from this singer), seldom releasing the memories with tenderness or colouring to offer shades of regret. There was one superb moment in the first song, the rising sixth on "Nacht," to relieve the blackly dramatic mood; but the performance was, as a whole, more impressive than moving—the last thing one expects to write about Dame Janet. There was eloquent oboe playing here, and fine full-metalled ensemble from the horns in the Freischütz Overture, the most poetically imagined performance of the concert, with a real sense of atmosphere for Weber's Wolf Glen spine-chills, and a broad, glowing of the big heart-beating finale. Mr. Downes has, of course, opera-house experience of the music, here gratefully drawn on. Would that he could bring the opera itself back to London: is Weber really to be permanently exiled to the concert hall?

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ie Spirit' National

ual Theatre's next t the Lyttelton, the date there, with e's Blithe Spirit. It June 24, en will play Elvira, a will play Charles Springe. Madame of them appearing npany for the first nal's production of the Western return to the reper- Lyttelton later in for seven per- nly before transfer- Divier. The cast is at the Old Vic last

Bracknell Jazz Festival

Two days of top international jazz, under canvas, in the landscaped gardens of South Hill Park in Berkshire. A 19th century mansion but now an arts centre for Bracknell New Town, is promised with the announcement of the second Bracknell Jazz Festival.

ERSEAS NEWS

INT. TURNOUT IN PORTUGAL POLL
mate likely
ajor parties

LISBON, April 25

Altogether, a total of thirteen parties are fighting for the 263 seats in the legislative assembly. However, the lion's share of the vote is likely to be distributed among only four parties—the Socialists, the Communists, the Centre Democrats (CDS), and the Popular Democrats (PFD). With most observers agreed that the electorate is unlikely to give a clear mandate to any of the major parties, most attention has now focused on whether a majority of votes will go to the parties of the left, the Communists and Socialists, or to the parties of the right — the PFD and the CDS.

After two years in which the country has gone through six provisional governments and a coup attempt on top of the one which ended the right wing dictatorship two years ago today, a more muted note has



Seares: "Confident"

crept into Portugal's politics. As attention has moved away from the debate over what kind of political system the country should have, so the more immediate issues—the ruinous state of the economy, the collapse of authority and the disastrous outcome of the decolonisation programme—have come to occupy the centre of the stage.

Nevertheless, whatever the final result of to-day's polls turn out to be, Portugal will still have to wait another two months before it has a properly constituted government. The sixth provisional government headed by Admiral Pinheiro de Azevedo is to remain in office until after mid-summer's presidential election.

French economy to
grow by 5 per cent

BY ROBERT MAUTHNER PARIS, April 25.

THE LATEST official forecasts for the French economy give a much more optimistic picture than only six months ago, although they hardly justify the euphoria on this score displayed by President Giscard d'Estaing at his news conference last week.

What is certain is that the overall growth of the economy will have recovered beyond all expectations in 1976, after the negative results of last year, and that inflation too will be kept within reasonable bounds. On the other hand, the trade account and industrial investment are two problems which are likely to be exacerbated this year, while unemployment, too, will remain a matter of serious concern.

According to the forecasts of the National Accounts Commission which have just been made public, GNP will grow at an annual average rate of 5 per cent during the current year and by 5.2 per cent in 1977, compared with a forecast of 4.7 per cent for 1976 made last September. Some members of the Commission even expressed the opinion that growth this year would reach 6 per cent.

Overall consumption is expected to rise by 5.9 per cent, against the original prediction of 2.4 per cent, while inflation, though higher than previously forecast, will probably drop to something like 8.5 per cent from last year's 9.5 per cent. The strong recovery of economic activity will have the inevitable result of sucking in more imports than originally expected. Indeed imports are likely to grow in 1976 by more than 12 per cent, about double the rate of overall growth of the economy. On the investment front, the only bright spot is that of the public sector which, under the continuing impetus of last autumn's reflationary package, is expected to increase its investments by nearly 10 per cent. But private investment, following last year's poor company results which led to a fall in French industry's self-financing rate to 57 per cent from 75 per cent in previous years, is likely to drop again by 1.3 per cent after a fall of 7 per cent in 1976.

M. Yves Guena, a former Gaullist Minister, has been elected Secretary-General of the Gaullist UDR party in succession to M. André Bord. M. Guena, who held five Ministerial portfolios under General de Gaulle and M. Georges Pompidou, will have the difficult task of preparing his party for the next Parliamentary election in 1978.

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Unemployment heads
EEC finance agenda

BY DAVID CURRY BRUSSELS, April 25.

COMMON MARKET Finance Ministers meet in Luxembourg to-morrow in an attempt to thrash out at least the outlines of a common approach to the problem of unemployment. They will discuss a European Commission paper on how to bring the economic performances of member States closer together — a document already picked over with a certain fastidiousness at the recent Heads of Government meeting—and some more general ideas on reducing the numbers of jobless in the Community, now put at around 4 1/2 per cent.

The meeting takes place at the suggestion of the British Chancellor, Mr. Denis Healey, who will once again find himself facing his EEC colleagues in the wake of a dismal performance by sterling in the foreign exchange markets. It is difficult to see anything positive coming out of the meeting in the way of Community action, in the light of Germany's quite clear insistence that economic discipline, like charity, begins at home, and the profound suspicion Bonn will have for any proposals involving spending.

The Commission is preparing a two-tier approach to equalising economic performance across the EEC (it is now repeated parrot-fashion in Brussels that economic divergence is the main Community problem). Initially it is suggesting laying down common financial disciplines by Governments towards things like budgetary deficits, balance of payments, money creation and incomes policy. It is also floating a rather vague concept of sanctions to be taken against members which break the disciplines—a part of the paper about which Mr. Wilson was more than usually sarcastic at the summit meeting.

Mr. Healey will be meeting his colleagues for the first time since he presented his Budget, with its offer to the unions to trade off incomes restraint for fiscal concessions. He may well wish to use the informal framework of the meeting to brief other Ministers on his view of Britain's prospects in the light of the incomes policy and recent measures to push up interest rates in the defence of sterling.

Soviet food output down

MOSCOW, April 25

THE SOVIET Union registered a 5 per cent increase in industrial production in the first quarter of 1976, but produced less meat and milk and failed to meet some consumer goods targets, Pravda said today.

The food industry produced less than in the first three months of 1975 and there was a decrease in the amount of fish available to the Soviet citizen.

Analysts said an exceptionally long and severe winter was partly to blame.

Energy was an area of success, with increases in production of oil and gas condensates, coal and electric power. The steel industry also fulfilled its plan, but production of washing machines, radios and gramophones, cloth, plastics and paper all fell short of their targets.

Iran oil talks standstill

BY ROBERT GRAHAM TEHRAN, April 25.

AFTER FOUR days of talks between representatives of the consortium and the National Iranian Oil Company (NIOC), little progress has been made on negotiating a new agreement on investment and oil take. As a result the talks are expected to be adjourned.

The main stumbling block is no longer so much strongly differing positions of the companies and NIOC. Rather the lack of progress stems from the secrecy and the still unbalanced agreement on 100 per cent take-over by the Saudi Government of Aramco.

NIOC does not want to conclude an agreement before the terms of the Aramco agreement are known. The broad lines of discussions with the consortium will have certain similar features to the Saudi deal. In particular those whereby the Government puts up all the investments and the companies receive a fee for services in the form of a discount on oil.

This is the essential part of the new agreement being discussed here. Under the 1973 agreement in which Iran acquired 100 per cent ownership, the consortium companies agreed to provide 40 per cent of future investment in return for privileged access to agreed quantities of crude. The consortium began talks in earnest in January on a new agreement requiring that the return on investments was inadequate under the existing arrangements.

At the last meeting in early March the companies are understood to have proposed a fee of 25 cents per barrel under a new services agreement which would include Government responsibility for investments. This year investment would be around \$1bn. NIOC rejected this fee as too high. Oil industry sources said that the Aramco fee being discussed could work out at around 13 cents per barrel. The current meetings which began on Wednesday held out the hope of a breakthrough. The consortium brought out their largest team so far, 24-men strong, to cover all the technical, legal and financial aspects. However, informed sources now say that any optimism of a breakthrough was premature and that the agreement must now await the outcome of the Aramco negotiations.

Tunisians held

Libyan troops have ambushed and taken prisoner three unarmed Tunisian soldiers in a border region of southern Tunisia, according to the official news agency, Redter reports from Tunis. The Tunisian Government has demanded the soldiers' release, the agency said.

Malaysia bombs

Communist guerrillas using homemade bombs to-day blew up a stretch of Malaysia's main northern railway line in the State of Perak, Reuters quotes police in West Malaysia.

major 'in Vietnam talks'

NEW YORK, April 25.

all but Exxon have informed the State Department that they would like to negotiate a return. These companies include Mobil, Shell, Marathon and Cities Service.

Some difficulties arose during the earlier talks over the Vietnamese desire that exploration rights be tied to commitments to build refineries and petrochemical complexes in the country, but this condition had since been dropped.

Hamish McDonald writes from Jakarta.

The head of South Vietnam's central bank has said his country welcomed help from foreign governments and organisations in its reconstruction.

Mr. Tran Duong, governor of the recently-formed National Bank of Vietnam, was speaking here yesterday in the concluding session of the Asian Development Bank's annual meeting. He announced South Vietnam would continue its ADB membership.

He said Vietnam welcomed all assistance and co-operation from abroad on the basis of equality, mutual advantage and respect for sovereignty. He said the Bank of Tokyo had been the only foreign bank to apply so far to reopen its office in Saigon.

The new government in Laos also sent a delegation to the ADB meeting, but the ADB has been unable to make contact with the new regime in Cambodia.

AP-DJ adds: The ninth meeting of the ADB ended on Saturday with President Shiro Inoue announcing that he expected the total capital of the bank to be increased from \$3.6bn. to \$7bn. by 1978.

BRISK ELECTIONS

North and South Vietnamese leaders joined millions of voters Sunday in general elections for a common national assembly which will reunite the two halves of Vietnam into a single country. Reuters reports from Saigon.

BRISK ELECTIONS

The new 432-seat assembly, which will have no opposition members will also appoint state organs and draw up a new constitution, bringing the divided country under one government and parliament.

BRISK ELECTIONS

The polling, five days before the first anniversary of the final victory of the Communists in South Vietnam, was described by Saigon radio as "enthusiastic, jubilant and orderly."

BRISK ELECTIONS

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BRISK ELECTIONS

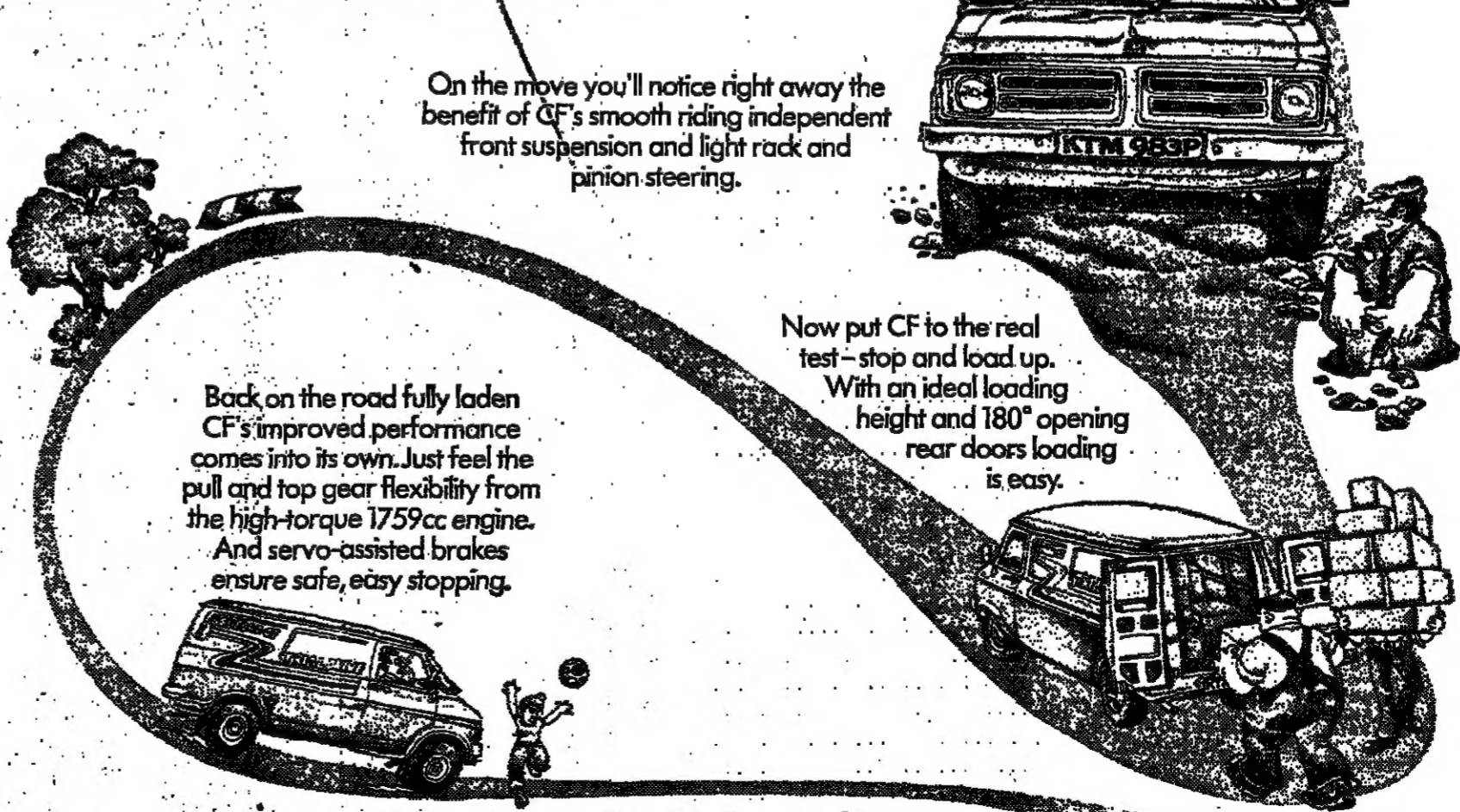
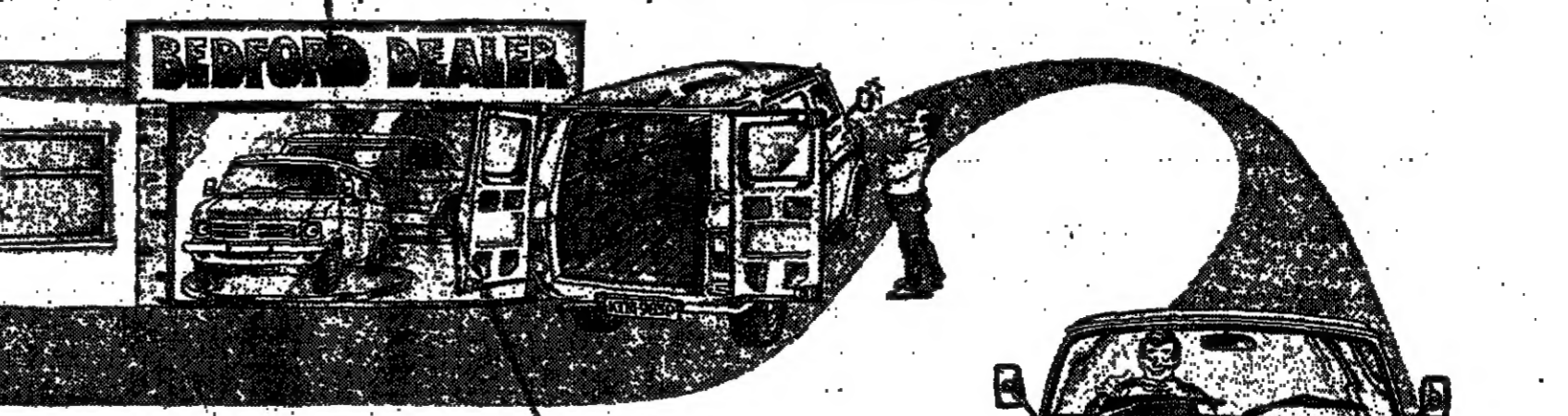
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BRISK ELECTIONS

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Test drive this page.

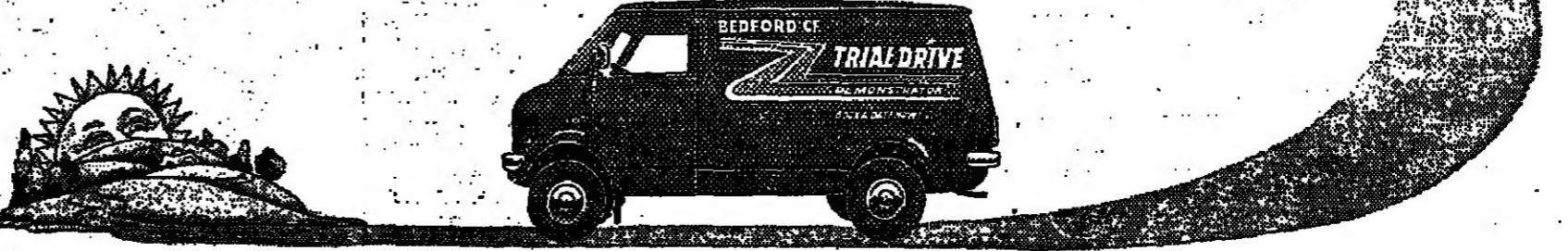
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The Executive's and Office World

EDITED BY JOHN ELLIOTT

Quentin Guirham looks at a Government report which may change plans for regional development

Fresh locations for office workers

WE ARE becoming a nation of office workers. The proportion of us who grow old sitting at desks may not yet seem alarming but the rate of growth, to many observers, is. Between 1951 and 1971, the proportion of the working population in office jobs rose from 18 per cent to 24 per cent. The 1971 figure is the latest near-accurate assessment available and was based on the census; but the most recent forecasts, carried out by the department of applied economics at Cambridge University, suggest that by 1981 office jobs will make up 30 per cent of the total.

The growth, says the department, will come mainly from non-clerical jobs such as professional and managerial grades. This is a trend which is already pronounced in what is overwhelmingly the country's largest office centre, London. Professional workers and managers claim bigger offices than typists, so the square footage occupied per head increases as well and is now well up on the old rule of thumb of 100 sq. ft. per person. Its rate of increase has been calculated at 1 per cent a year. Even in manufacturing industry, more offices are now required. A developer used to reckon on the office content of a factory unit being 10 per cent of the total space. Now 15 per cent is around the norm.

Incentives

Governments have, historically, been rather slow in trying to plan where this expanding office population should go. Compared with the mass of incentives and disincentives with which successive administrations have directed industry around Britain, there have only been sparse efforts to direct office employers. Local planning regulations have provided a progressively stricter guide over what speculative developers and owner occupiers can construct but it was not until the early 1960s that a national Government worried about which regions were receiving new office blocks.

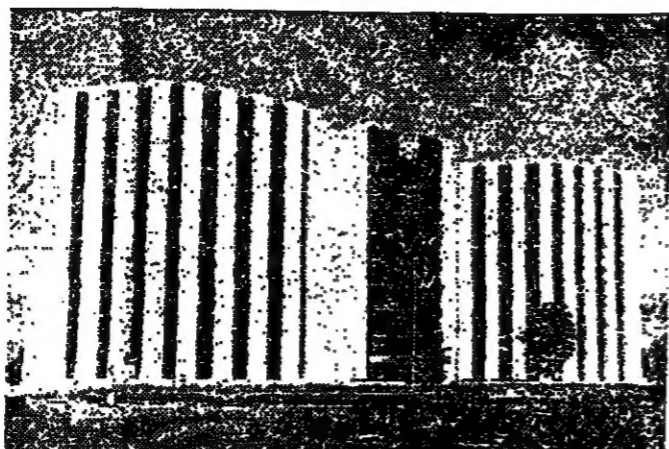
The problem identified then was London, where a White Paper of 1963 found an increase at the second try or, even of 32 per cent, over pre-war levels in office space in the central area. It consequently declared the South East

checked and that offices should be better distributed in London "and further afield."

The Conservative Government of the time then started work to study the possible dispersal of civil service jobs from London and to encourage office location paid for up to three centres in the outer suburbs, in years in intermediate areas and New Towns and elsewhere. It set up the Location of Offices Bureau to encourage decentral-

The first positive incentive to move general office jobs to the assisted areas did not come until 1973, when a grant of £800 per employee moved with his tenant before even starting out on the planning permission process. These steps do not suggest any urgent determination to push more new office jobs out of the South East, but then the present recession, plus its (London's is 38.3 per cent).

time, the Government also said it would investigate the merit of altering the ODP system to cut the time involved in a developer having to find an ODP approved area before even starting out on the planning permission process. These steps do not suggest any urgent determination to push more new office jobs out of the South East, but then the present recession, plus its (London's is 38.3 per cent).



Home of one of the country's largest single relocation exercises, the Barclays Bank International building at Poole, Dorset, which is just outside the Office Development Permit limit. Occupied late last year, it will take 1,000 London jobs with 1,500 recruited locally.

sation of private sector office employment and tightened the building rights on planning controls; but rejected any system of licensing new office buildings.

But it was not until Labour was elected the following year that a real control system was introduced, based on office development permits (ODP) which meant that a developer usually had to have a suitable tenant lined up before starting to apply for planning permission. At various times the control system has been extended to cover the Midlands and East Anglia, but its normal, and present, application has been limited to the South East.

The ODP system is, however, only a disincentive to further expansion and its efficiency is arguable. The evidence is that most companies refused ODPs for large blocks have either stayed where they are and not expanded their accommodation, or have obtained a London ODP Paper of 1963 found an increase at the second try or, even of 32 per cent, over pre-war levels in office space in the central area. It consequently declared the South East

Controls

While, for reasons not wholly explained by the review, it relaxed ODP restrictions from offices of between 10,000 square feet and 15,000 square feet, it also stated that control for larger developments would be applied strictly and that applicants would be required to show how a move to an assisted area was not practical. At the same

dwindling population, has brought London's political influence into play to protect any jobs, whether in industry or offices, within the capital.

The review does, however, represent the longer-term national policy and is likely to remain the basis for much future planning—especially in central London, where the Government must try to do to reduce the office employment disparities between regions.

We all recognise that London is mainly an office centre (70 of the top 100 companies based there, etc) but the extent of its dominance is perhaps worth restating. Using Inland Revenue returns for commercial office floorspace, the review shows that central London alone accounted in 1974 for a quarter of all the office space in England and Wales. The wider Greater London area had 150.7m. square feet of the national total of 397.2m. square feet while the South East as a whole took over half the total

Government policy, the review

COMMERCIAL OFFICE FLOORSPACE

	1967 million sq. ft.	1974 million sq. ft.	% increase	1974 % of total space
Northern	12.1	16.6	32	4.0
Yorkshire & Humberside	19.8	27.1	37	6.8
East Midlands	11.1	17.0	53	4.3
East Anglia	6.1	9.1	49	2.3
South East	130.2	208.4	59	52.5
South West	14.1	22.0	56	5.5
West Midlands	20.2	27.4	36	6.9
North West	39.4	57.3	46	14.5
Wales	8.6	12.9	50	3.2
England and Wales	281.6	397.2	41	100.0

Figures based on Inland Revenue floorspace returns for England and Wales.

alongside better working conditions, economic growth and deployment of resources between rival priorities such as office and house building. With interventions such as ODP controls helping to produce the shortages which in turn produce the startling swings in property values, the review sees this as, perhaps, a counter-argument to present policies.

"The spectacle of unearned and apparently untaxed super-profits has undoubtedly been felt by many as an affront to equity," it declares. "Such profits come within the development land tax only so far as they are realised in development. Much more important are the gains to owners of existing property. It is the essential of a market mechanism that there will be gains as well as losses, and some people are now suffering losses. But it is plainly for consideration whether particular measures are likely to provide exceptional gains, with which taxation may not effectively or equitably deal."

Restrictions

This political spectre, the same for both parties, of anti-social profits being made from ill-timed restrictions being imposed on office building in the popular areas, must colour all government decisions, even granted the present weakness of most sectors of the property market. The review, however, tends to the conclusion that in London's case, the danger is not what it was: the declining population, with a widening gap between London wages and those in the regions as office employers chase too few staff, will, it feels, lead to a resumption in the steady flow of jobs relocated from central London (perhaps 250,000 of them since 1963).

The chances are, however, that the relocations will only push jobs just outside the South East to Swindon, the review suggests, or to East Anglia or the East Midlands. So the logic is that the "push" instrument when the Government decides on one, should extend to all non-assisted areas. That would mean encouraging new offices beyond Sheffield to the north, or Wales and Plymouth to the West, a revolutionary concept in the direction of office location.

EMPLOYEE BENEFITS

The unknown cost factor

BY NICHOLAS LESLIE

FEW COMPANIES assess the total cost of benefits they provide for employees over and above salaries, according to a report published today. At the same time, however, it appears that they are having to become more aware of the individual costs, particularly in the light of pay policies under which increased benefits must be offset against pay rises.

The report, *Survey of Employee Benefits 1976*, published by management consultants, Hay-McL, suggests that companies should be assessing the cost-effectiveness of benefits and the feasibility of changing either the selection of benefits or their emphasis.

The work draws on the responses of 90 major U.K. companies, a total of 1.3m. people. The reason most frequently quoted by companies for having a range of benefits is to improve their competitive position as employers, while well motivated and content employees and good industrial relations are placed second and third in importance. A broad spectrum of benefits is analysed, ranging from bonus payments to loans and assistance with housing. The report states, for example, that in the pensions held, the trend continues towards flat salary schemes and schemes providing equal benefits for "blue" and "white" collar employees.

Some light is shed on the incidence of those benefits which seem the target for penalisation under the latest Budget proposals of the Chancellor of the Exchequer. Financial assistance for the education of children is provided by 20 per cent of the companies responding to the questionnaire, but the majority related to cases where the employee was working overseas. Fourteen per cent of companies operated share incentive schemes and 36 per cent of 38 reporting companies provided loan facilities with preferential interest rates ranging from nil to around 9 per cent for management accountsants is £5,000, while at a similar level in marketing a product manager has a median of £5,000, although he is more likely to be a senior employee entitled to a company car.

The survey also found that while demand for accountants is still well below the 1973 peak, they can still command substantial salary advancements once qualified. The median salary for management accountsants is £5,000, while at a similar level in marketing a product manager has a median of £5,000, although he is more likely to be a senior employee entitled to a company car.

COMPARATIVE STATEMENT OF CONDITION

	MARCH 31,	
	1976	1975
Assets		
Cash and Due from Banks	\$ 603,736,000	\$ 402,583,000
Time Deposits in Foreign Banks	308,426,000	175,130,000
U. S. Treasury Securities	76,429,000	83,877,000
Obligations of Other U. S. Government		
Agencies and Corporations	29,139,000	29,098,000
Obligations of Other Political Subdivisions	390,812,000	320,405,000
Other Securities	9,295,000	10,908,000
Money Market Investments	50,581,000	22,727,000
Federal Funds Sold	289,363,000	293,943,000
Loans	1,455,746,000	1,306,861,000
Premises and Equipment — Net	47,842,000	45,927,000
Other Real Estate	12,932,000	2,698,000
Customer Liability on Acceptances	5,480,000	19,855,000
Accrued Interest Receivable	28,599,000	32,818,000
Other Assets	3,994,000	2,944,000
TOTAL ASSETS	\$3,312,374,000	\$2,749,774,000
Liabilities		
Demand Deposits		
Individual, Business and Other	\$ 854,315,000	\$ 782,070,000
Banks	247,413,000	201,754,000
U. S. Government	1,386,000	1,394,000
Total Demand Deposits	1,103,114,000	985,218,000
Time Deposits	1,148,449,000	909,070,000
Deposits in Foreign Offices	421,474,000	290,479,000
Total Deposits	2,673,037,000	2,184,767,000
Federal Funds Purchased	410,301,000	343,454,000
Bank Liability on Acceptances	5,480,000	19,855,000
Accrued Interest Payable	17,690,000	16,166,000
Other Liabilities	23,202,000	27,528,000
Total Liabilities	3,129,710,000	2,591,770,000
Reserve for Loan Losses	24,057,000	17,068,000
Capital		
Common Stock	50,000,000	46,450,000
Surplus	50,000,000	46,450,000
Retained Earnings	58,607,000	48,036,000
Total Capital	158,607,000	140,936,000
TOTAL LIABILITIES, RESERVE AND CAPITAL	\$3,312,374,000	\$2,749,774,000

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Fair opens this week in Hanover

BY ROY LEVINE

A MAJOR event in the office equipment exhibition calendar starts on Wednesday when the Hanover Fair opens in Germany. The fair, which is regarded as the international showpiece for new office products, continues for nine days until May 6.

After a rapid succession of new models of copiers being launched during 1971-73, the pace has now slowed. The newest model is the DB8, launched today in the U.K. by Roneo Vickers. It is the company's first copier to use a magnetic dry toner and is designed for high quality reproduction for runs of between 2,000-5,000 copies a month. At £855 (or £25.70 a month rent), it is cheaper than most plain paper copiers.

Franking

A sister company, Roneo Newport, will be showing an electric postal franking machine at Hanover which is much faster than its existing model. Roneo has combined with Singer and will be displaying two Singer franking machines for the very large mailroom as well.

Rank Xerox will not be showing any new equipment for it is spending its time consolidating marketing programmes for its new products. But some of its U.S. competitors may be exhibiting products for the first time on this side of the Atlantic.

There should be a number of new systems shown at Hanover this year in view of the rapid development of the technology. Europe is catching up quickly with the U.S. and most of the sophisticated systems will become available in Europe over the next few months.

Among the main developments likely over the next few months in the equipment field and which should be reflected at Hanover will be more office computers at cheaper prices for small companies and desk top electronic calculators with printers as well as visual displays. At the bottom end of the calculator market, it would not be surprising to find a number of companies still cutting their prices.



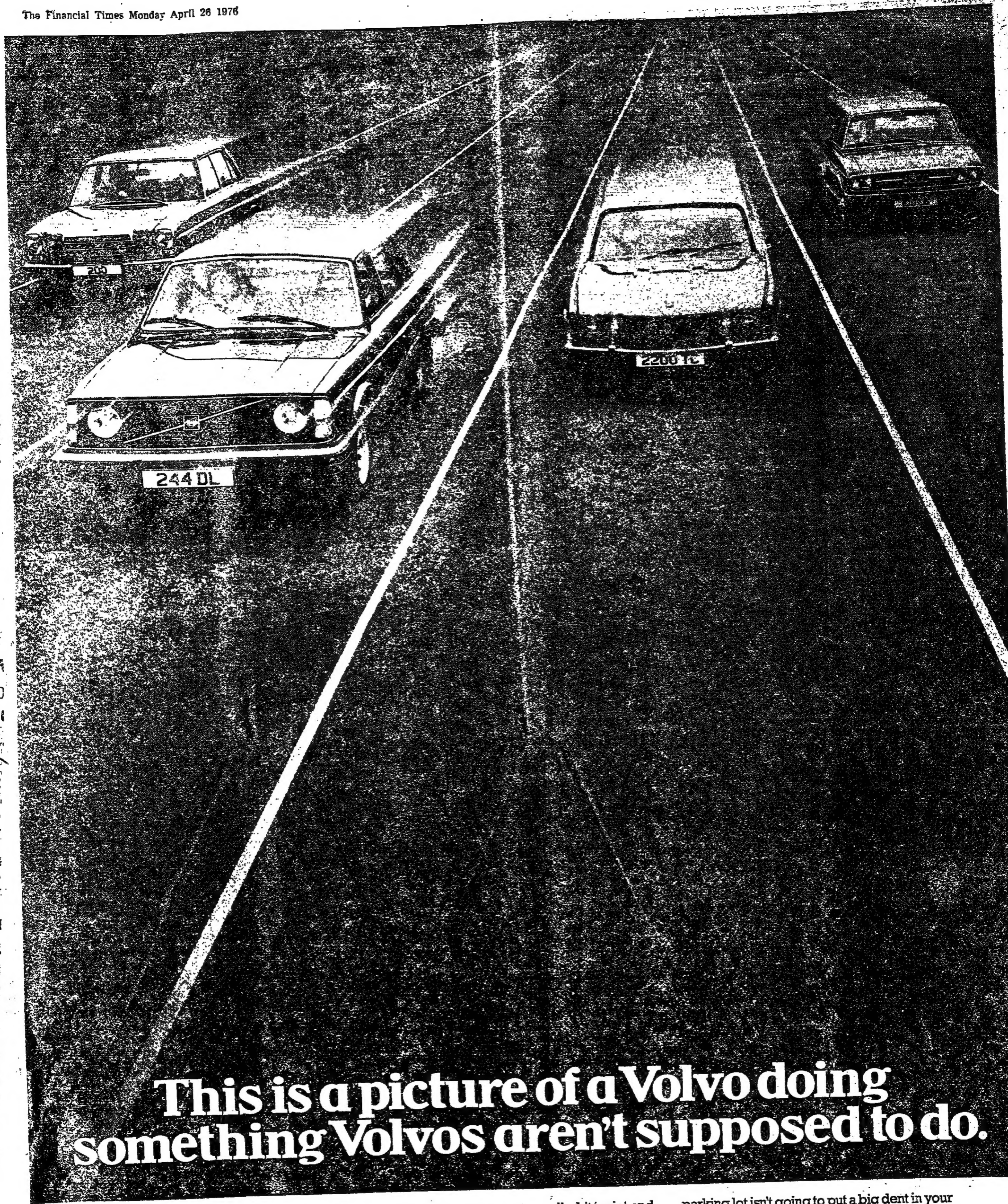
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Many companies very sensibly have a copy of the Financial Times in reception for visitors. But are your senior executives so fortunate?

They are the people who need up-to-date intelligence on every aspect of business—not just in their own specialised field.

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In these competitive times everyone in business needs the Financial Times



This is a picture of a Volvo doing something Volvos aren't supposed to do.

By and large, people don't think of the Volvo 244 as a performance car.

And it's true that some other cars can enjoy a momentary advantage at the traffic lights.

Yet between 30 mph and 50 mph, in top gear, the Volvo 244 DL will out-accelerate most cars in its class.

At 10 seconds it out-performs the Audi 100 LS (13.5 secs), the Rover 2200 TC (10.7 secs) and the Mercedes 200 (12 secs)*

In this way, Volvo give the motorist something more valuable than a Grand Prix start.

Peace. Quiet. Flexibility.

The Volvo 2.1 litre engine is extremely

restful (Motor magazine called it 'quiet and smooth').

Even in town driving you'll find there's less need to change down to third than with most cars.

And if you ever have to pull a boat or horse-box, the Volvo engine's good low-speed characteristics make it the ideal car.

(Reassuringly, all this is achieved on economy grade petrol.)

In other areas the Volvo is equally aware of the motorist's real needs.

Its specification includes impact absorbing bumpers—so a small knock in the

parking lot isn't going to put a big dent in your wallet.

The Volvo driving seat has been designed by orthopaedic specialists and is the only one with a lumbar support control.

Everything is there to make your journey safer and more comfortable, not simply to impress the neighbours.

So if you want a car that's first away from the lights, we couldn't honestly recommend a Volvo.

But if you want peace, comfort and quick overtaking, then the Volvo 244, very obviously, comes into the picture. **VOLVO 244**

*Figures quoted are from What Car? Magazine.

For your free copy of "The Volvo Facts" write to: Volvo Concessionaires Limited, Lancaster Road, Cressex Estate, High Wycombe, Bucks. HP12 3QE. Tel: (0494) 33444.
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The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interim or final. The sub-divisions shown below are based mainly on last year's timetable.

[illegible]

Power Hamlets 10cpc Bds. Red. 39.9476
 53.5595
 10cpc Bds. Red. 38.476
 52.5965
 10cpc Bds. Red. 38.9476
 53.5595
THURSDAY, APRIL 29
COMPANY MEETINGS.
 12. American National House, St.
 James St., S.W. 10.30.
 13. American Brickman House, Moor
 Lane, E. 10.30.
 14. Citizens' Savings Investment, 117, Old
 Broad St. E.C. 2.30.
 15. Electric Radio, 114, 115, 116,
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IN VALUE OF POUND MAY BOOST EXPORTS BUT... any U.K. companies are concerned over cost of their raw materials

INDUSTRIAL AND FOREIGN STAFFS

In the value of the pound, many companies are concerned about the cost of their raw materials. The pound's value has risen sharply since last April, and this has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

both GEC and ICI pointed out that the falling pound inflated the price of the imported inputs of their parent companies and that the shift in the pound-Deutsche Mark parity was chiefly a correction for the inflation differential between Britain and Germany. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

BSC is now able to launch a sale of its products in the U.K. market. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

below the floor price of the cost of timber products made from Eastern Bloc imports is likely to increase by 16 per cent, according to Mr. John H. Meyer, chairman of the British Timber Importers' Association. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

Inflation is also a major concern for many U.K. companies. The rate of inflation has risen sharply, and this has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

Mr. F. J. K. Hillbrandt, finance director of ICI, said: "Looking at it from the U.K. end of our business the fall in the value of the pound puts up the price of imported commodities and therefore increases our raw material costs. For example, we are particularly concerned about the rising price of naphtha." This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

Mr. Barry Stephens, group managing director of Seibe German Holdings, which concentrates upon advanced water and fire-fighting technology and related areas, said the decline in the value of the pound was giving his company an "unquestionable price advantage" in most of its overseas markets. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

Mr. R. Aldred, chairman of Taylor Woodrow International, said it was his company's view that the fall in the pound would have little benefit for British companies in the overseas construction business. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

so a number of U.S. companies in a strong market, however, it must be said that the risks that have been earned is not a company's first objective must be to provide a profit for its shareholders. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

Mr. Henry Keswick was appointed a Director in August and the Earl of Crawford and Balcarres in November. We count ourselves fortunate to have the support of these two new Directors. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

Mr. S. Batesworth, who was Deputy Chief General Manager, retired in December after a distinguished career extending over some 45 years, and Mr. K. G. Addison and Mr. G. Bowler were appointed Deputy Chief General Managers. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

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Grocery prices continue strong upward trend

BY DONALD MACLEAN

THE Financial Times grocery prices index continued its strong upward trend this month, when it went up by 5.83 points, to 222.43, a 2.7 per cent increase since last April to 217.00.

Higher potato prices were a major factor once more, but allowance must be made on this occasion for a widespread switch of buying to new potatoes. Higher meat and egg prices played a significant part in the rise, and also a 1p rise in the price of the standard loaf of bread.

Prices used for this month's shopping basket were gathered last Tuesday—when sterling was standing at around \$1.85, compared with \$1.82 or so on Friday. With the pound having fallen by some 10 per cent against the dollar in the last two months, housewives face the prospect of a fresh build-up of grocery prices as a result of the increased cost of imports.

Continued weakness in the pound could result in pressure on the Government's selective price restraint scheme. Under the scheme, prices of a number of goods, including various grocery lines, are due to be held by shopkeepers to a maximum increase of 5 per cent over six months from the start of the scheme in February.

FINANCIAL TIMES SHOPPING BASKET

	Apr., 1976	Mar., 1976
Dairy Produce	108.87	108.42
Sugar, Tea, Coffee, Soft Drinks	48.96	49.19
Bread, Flour, Cereals	66.76	66.64
Preserves and Dry Groceries	22.37	22.36
Sauces and Pickles	12.19	11.85
Canned goods	39.64	38.20
Frozen foods	33.78	33.06
Meat, Bacon, etc. (fresh)	148.53	144.97
Fruit and Vegetables	128.37	119.58
Non-Foods	47.06	45.96
Total	657.41	640.15

INDEX

1971:	Feb. 100; Mar. 101.09; April 102.73; May 105.75; June 108.00; July 107.24; Aug. 105.40; Sept. 105.26; Oct. 104.35; Nov. 105.48; Dec. 106.26.
1972:	Jan. 109.18; Feb. 109.10; Mar. 109.24; April 108.04; May 109.34; June 115.97; July 111.97; Aug. 113.40; Sept. 112.14; Oct. 113.15; Nov. 11: 114.48; Nov. 18: 114.49; Nov. 25: 114.72; Dec. 2: 114.72; Dec. 9: 114.75; Dec. 16: 115.77.
1973:	Jan. 117.56; Feb. 119.25; Mar. 120.53; April 123.80; May 125.57; June 128.81; July 127.44; Aug. 126.59; Sept. 129.39; Oct. 138.83; Nov. 135.83; Dec. 138.26.
1974:	Jan. 141.41; Feb. 141.52; Mar. 142.66; April 143.23; May 142.64; June 145.17; July 147.97; Aug. 146.22; Sept. 147.64; Oct. 150.5; Nov. 154.39; Dec. 159.15.
1975:	Jan. 161.84; Feb. 167.77; Mar. 173.50; April 178.39; May 183.41; June 193.02; July 188.45; Aug. 189.23; Sept. 186.64; Oct. 189.79; Nov. 194.78; Dec. 201.90.
1976:	Jan. 208.33; Feb. 211.81; Mar. 216.60; April 222.43.

The index is based on the prices paid by 11 shoppers around the country. The shopping was done in supermarkets and independent grocers.

Report supports old methods

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

CHILDREN MAKE faster progress in the basic skills of reading, mathematics and English when taught by formal methods, according to a four-year research project by Lancaster University, to be published today.

The study, covering 870 schools around Lancashire, found that as well as being sharply ahead in basic skills, the formally-taught pupils' "creative" writing abilities were on a par with those of children taught by the more modern "progressive" methods associated with the Plowden Report published in 1967.

considered that the informal among teachers with Left-wing political beliefs. The Lancaster study comes after numerous, less well researched claims, that "progressive" teaching tended to leave pupils, particularly those from poor homes, handicapped in the Three Rs.

However, the Bullock Report on literacy, published last year, carefully refrained from offering any judgment on the respective efficacy of formal or informal methods. The Lancaster report yesterday brought an immediate attack by Dr. Rhodes Boyson, Conservative MP for North Brest and a leading educational traditionalist.

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from the circulated from the Chairman, London

1975 show a welcome in spite of very difficult however, it must be said that the risks that have been earned is not a company's first objective must be to provide a profit for its shareholders. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

Mr. Henry Keswick was appointed a Director in August and the Earl of Crawford and Balcarres in November. We count ourselves fortunate to have the support of these two new Directors. This has led to a significant increase in the cost of raw materials for many U.K. companies. The pound's value has risen from 222.43 to 247.77, a 11.5% increase. This has led to a significant increase in the cost of raw materials for many U.K. companies.

Home Fire The level of fire wastage continues to be very serious and represents a major drain on the country's resources. Nevertheless, we have been able to make some selective rate reductions and can report a satisfactory underwriting surplus. We have continued to emphasize the importance of revising sums insured in the light of increased values at risk.

Home Accident Although a number of sections of this account ran well, there was an overall loss due principally to a deterioration in Professional Indemnity experience and severe losses under a major special scheme now closed for new business.

Home Motor Despite severe competition, we have made increases in rates reflecting the consequences of inflation on repair costs and injury awards. The account has closed with a larger loss than last year.

Home Personal Although 1975 was free of catastrophes, there was a marked increase in claims from subsidence and the number of thefts from dwellings rose sharply. As a result, there was a small underwriting loss. Under-insurance is unfortunately very prevalent and although we do our best to warn of the dangers it is still the case from time to time that repair costs after a partial loss exceed the total sum insured, causing great hardship to those concerned.

Engineering Experience in 1975 was not good and there has been very strong competition. Although there was a reasonable increase in the National Vulcan's premiums the account closed with a loss.

Life There was a marked increase in Life Assurance new business in the United Kingdom. On the pensions side new business was affected adversely by the Social Security Pensions Act and by the Income Policy; nevertheless the result was reasonably good. New business performance was greatly helped by our new specialist Life Branches.



Summary of Results		
	1975 £000	1974 £000
Premium Income - Fire, Accident and Marine	348,258	296,151
Underwriting Transfers:		
Fire and Accident	-454	-6,913
Marine, Aviation and Transport	-	1,500
Long-term Insurance Profits	1,588	1,087
Investment Income	34,408	28,978
Other Income, including Trustees Fees	179	182
	35,721	24,834
Less:		
Special Contribution to Pension Funds 6 1/2% Unsecured Loan Stock Interest	139	141
Profit before Taxation	35,582	22,693
Less:		
U.K. and Overseas Taxation	15,880	9,386
Profit after Taxation	19,702	13,307
Less:		
Minority Interests	178	250
Profit attributable to Shareholders	19,524	13,107
Cost of Dividends	3,088	5,680
Profit Retained	11,436	7,427
Earnings per Share (adjusted for rights issue)	42.98p	32.31p

The valuation of the Life Fund of Sun Alliance and London Assurance Co. Ltd. as at 31st December 1975 disclosed a distributable surplus for the three years of £27.2m. compared with £23.5m. three years ago. 80% has been allocated to policyholders and the remainder to shareholders. The contribution to Profit and Loss of £1,577,000 compares with £1,075,000 in 1974. Future distributions of profits will be made annually.

Reinsurance The figures, particularly as regards Fire business, largely relate to 1974 and reflect many of the major losses sustained that year. However, we have again been able to achieve a profit from this section of our business.

Marine Large casualties continued to affect the Hull account and, on the Cargo side, congestion in many ports is giving serious concern. As anticipated, the 1975 account showed a further considerable increase in claims settlements and no transfer is being made to Profit and Loss. The Marine Fund stands at 138.3% of the year's premiums and is more than adequate to absorb current and outstanding losses.

Overseas excluding North America It is encouraging to report an overall profit from our operations over a wide area and particularly the praiseworthy turn-round achieved in Australia. In New Zealand, however, we have again suffered a loss. In South Africa we have been faced by an abnormal number of serious claims and intense competition accompanied by what we regard as a reduction by some of our competitors in the normal standards of sound underwriting. A substantial loss was recorded. Elsewhere there were disappointing results in Belgium and Holland, commendable profits from France, Denmark and the Caribbean, and an improvement in Germany. Our important Agency organisation has done well and the International Department which handles overseas business from London produced a valuable profit.

North America In the United States the determined action taken by our Managers, Chubb & Son Inc., reduced non-marine underwriting losses from \$8.6m. in 1974 to \$4.7m. against the generally worsening trend of the U.S. market. Notwithstanding limited premium growth, expenses were contained and the expense ratio reduced.

In Canada inadequate rates, due to unrealistic competition in recent years, contributed to major underwriting losses in 1974 and drastic measures were taken. These have resulted in a smaller loss in 1975 and we believe that the improvement will continue.

Investment The recovery in the U.K. stock market in 1975 was remarkable. The signs of greater realism of the U.K. Government in handling the economy, success in reducing the pace of wage increases and indications of a recovery in the U.S. economy brought some return of confidence to the market. This was reflected in the dramatic improvement in the market values in both the General and Life Funds which showed surpluses over book values of £108m. and £71m. respectively. Investment income in the General Funds increased by 18.7% to £34.4m. and in the Life Fund by 25.7% to £35.0m.

Property The problems of the property market, arising from our economic recession and Government legislation, continued. However, the underlying strength of prime commercial investments had proved itself during 1974 and with the removal of business rent control the market for first class properties improved gradually.

Systems The teleprocessing network covering all our main Branches in the U.K. with visual display terminals linked to our computer installations has proved successful.

Conclusion It would be wrong to say that we are satisfied with the outcome of the year's operations. If we are to maintain our expansion and our standards of security and service we must plough back more than has been possible in recent years. As a result of the rights issue and the improvement on the Stock Exchanges, our solvency margin was in excess of 70% at the end of 1975. However, we must ensure that our resources grow at a sufficient rate so that we are able to withstand severe fluctuations in stock market prices without limiting our ability to expand. I wish to congratulate the staff at home and abroad who have worked so hard and loyally, often under considerable pressure. They are responsible for the results which compare well with the general outcome of 1975. The results in a difficult year prove - more than any words of mine - the high quality and sustained effort of our top Management. Once again I offer you thanks to Mr. Greenwood and his colleagues.

Monday April 26 1976

WORLD BANKING

PART ONE: PART TWO WILL APPEAR NEXT MONDAY, MAY 3

The international financial system has largely overcome the problems produced by the oil crisis, and longer-standing issues have re-emerged.

Ways have been sought, though not found, of ironing out the fluctuations in floating exchange rates and of helping developing countries with easier credits and sales of IMF gold.

Serious

Serious

The rise in the oil prices has, of course, left serious continuing balance of payments problems for many countries, but the top place on the agenda in international monetary discussions over the last year has been the rate of recovery in the world economy and the issue of floating exchange rates. And the prospects of reform here have throughout been clearly dependent on the U.S. and France resolving their differences. The position after the IMF annual meeting last September was that the French still wanted the Fund's articles to remain strongly biased in favour of a fixed rate system, while the U.S. authorities were insisting upon both fixed and floating rates being treated as equally legitimate.

The impasse was effectively ended in November at the Rambouillet Summit meeting between the heads of Govern-

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<u>The pound.</u>	<u>New financial centres</u>	<u>Greece</u>	<u>Iran</u>
<u>The dollar</u>	<u>The U.S.</u>	<u>The Far East</u>	<u>The Caribbean</u>
<u>Euromarkets</u>	<u>Japan</u>	<u>The Arab World</u>	<u>India</u>
<u>Project finance</u>	<u>Comesco</u>	<u>Southern Africa</u>	<u>Pakistan</u>
<u>Developing countries</u>	<u>Yugoslavia</u>	<u>Black Africa</u>	<u>Latin America</u>
<u>Development finance</u>	<u>Israel</u>	<u>Turkey</u>	<u>China</u>

carry on most of their trading pressure from the developing
with Germany. countries for more generous

with sterling, which remained under pressure during March and early April, and its sharp fall illustrated the problem of disentangling what is an appropriate depreciation reflecting international price movements from other factors. The problems of managing a floating system still have to be resolved despite all the good intentions of recent international meetings of finance ministers. The urgent need has been for new international rules to govern exchange rates and for market intervention which go beyond merely the question of "constant competitiveness."

Concessions

Apart from concern with IMF's exchange rate adjustments, the other main issue on the agenda has been how to help the poorest of the non-oil developing countries—and in with this have been the various discussions over the sale of part of the IMF's holdings of gold. Agreement in principle on the effective abolition of the "official" gold price and the sale of 25m. ounces (or a sixth of the IMF's holdings) for development funds was reached at the IMF annual meeting last September.

The gold sales have been highly controversial, and some of the developing countries have argued that the scheme amounted to a "ransom" on the backdoor device to enable the "weather" industrialised countries to replenish their central bank gold reserves on advantageous terms. This led to

CONTINUED ON NEXT PAGE



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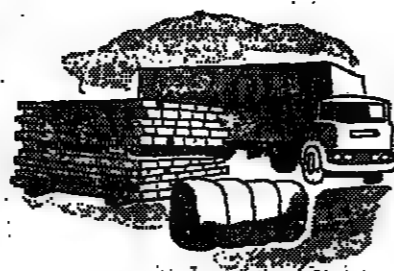
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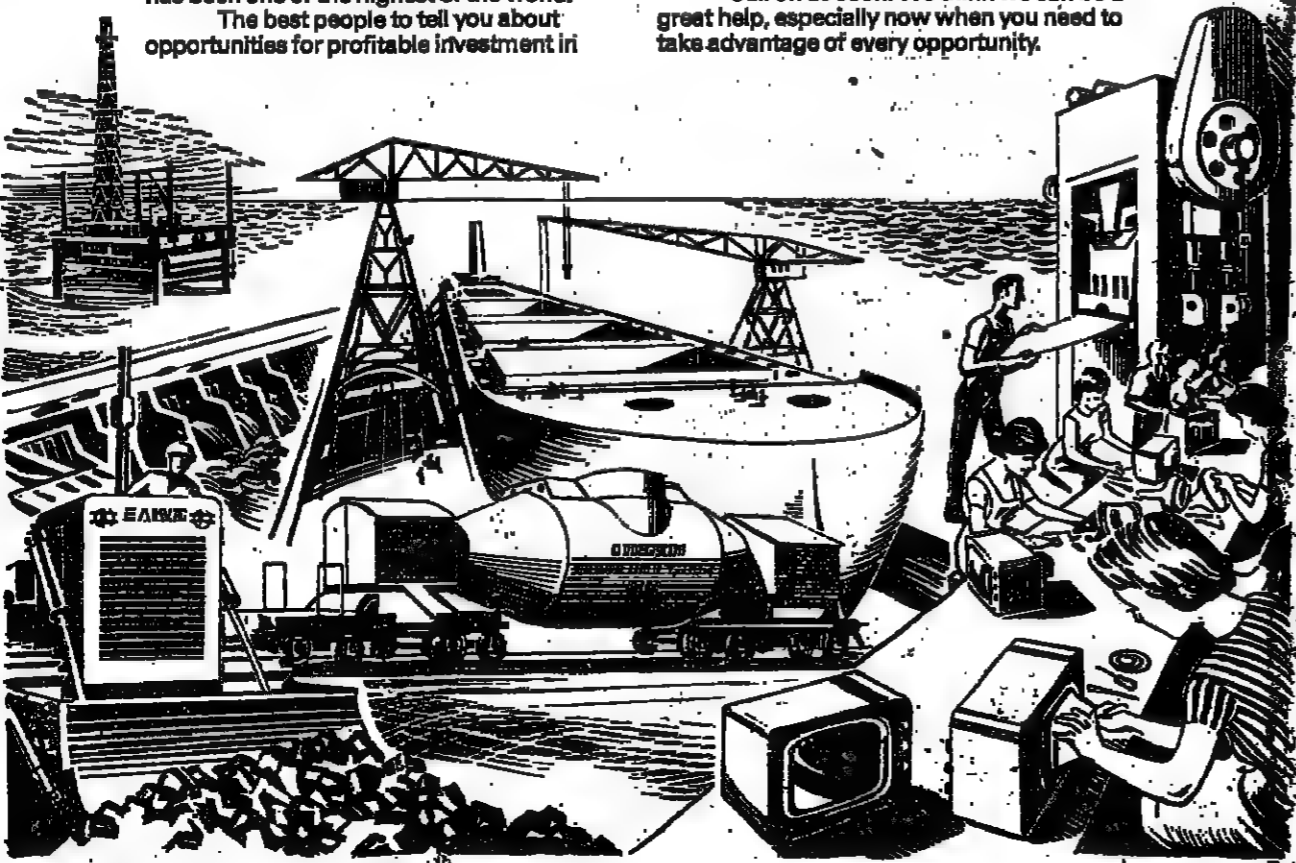
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WORLD BANKING II

OIL FUNDS

The shock absorber

THE IMPACT of petrodollars on the world banking system has been fairly well absorbed. The shock effect on the system from the greatly enlarged surpluses of the oil producer countries after the major price boosts in late 1973 has not matched the fears expressed at the time.

The international monetary system has not been distorted out of recognition by the investment and deployment of very large funds by a few oil-exporting nations enriched suddenly at the expense of myriad petroleum users. "Recycling" through the financial system, as well as by more lending to developing—especially Moslem—states has helped to allow the big surpluses, \$66.4bn. (£30.5bn.) at the peak in 1974, but little more than half that in 1975, to be relatively well accommodated.

This process has been assisted by the growing willingness of the oil states considerably to widen the scope, and lengthen the period, of their investments, so preventing the great mass of funds being funnelled into short-term deposits with all the disruption which that once threatened.

Yet the tremendous adjustments caused by the diversion in the ownership and placement of many billions of dollars have not been without their strain. In particular, Britain, whose own balance of payments deficit has been much burdened by high oil prices, has latterly felt the impact of the tendency by oil producers to switch some of their pounds into dollars and other currencies.

Imports showed a steep rise, the counterpart of which was the effective elimination of the combined payments deficit of the advanced Western nations. One of the most worrying aspects of the petrodollar flow which built up so rapidly in 1974, after the first major oil price rises, was the tendency of the oil states to hold their cash in very short-term money market assets of high security. Typically, the outlets chosen were bank deposits with major banks and Treasury bills in the U.S. and Britain.

This preference, dictated by safety-first considerations, led on occasion to many millions, extending at times to billions, of dollars hitting the New York money market and the markets in high-class bills at one time. Special arrangements to absorb the extra short-term funds sometimes had to be made.

With more experience, and with the benefit of fuller high-ranking professional advice from London, New York, and certain Continental centres, the oil producer states—of which Saudi Arabia has by far the largest surplus—have accepted the need for greater diversity of investment.

The recent in the placement of funds still tends to caution and restrictiveness—most of all by Saudi Arabia, whose equity investment has been minimal in relation to her huge resources and confined to the U.S. But the need to deploy funds in rather longer-term Government securities, and in good class securities outside the Government sector—including the purchase of company bonds of up to about five years' term.

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notably in the U.S.—has now been accepted, even by Saudi Arabia. This has helped to spread the impact of the petrodollars, and to divide the demand for investment assets over a broader sector of the market in the U.S., Britain and the Continent of Europe. A more diversified investment policy, with a relatively larger accent on the U.S., Germany, and to some extent Britain, has for some time been pursued by Kuwait.

There was certainly a marked decline last year in the amount of petrodollar cash going into bank deposits and Treasury bills in the U.S. and Britain—a mere \$1.4bn. or 5 per cent. of the reduced surplus, compared with \$13.5bn. (27 per cent.), according to the estimates of Morgan Guaranty Trust. The reasons were that the oil States were well provided with this kind of short-term holding after the big build-up in 1974, and that some oil countries, whose surpluses were evaporating, had even to draw down some of their deposits.

Then, the relative improvement in the yield on longer-term investments, such as gilt-edged stocks, in several countries, compared with the low interest rates on short-term holdings, gave the former an enhanced appeal in 1975. As Morgan Guaranty Trust said in its March, 1976, issue of World Financial Markets: "There was a marked evolution in OPEC's investment preferences last year. Holdings of liquid external assets grew more slowly than in 1974, while those of longer, maturity increased rapidly."

Contributing to this trend was the large interest rate spread that developed last year in favour of long-term debt instruments, as well as the more favourable outlook in the U.S. equity markets.

With the weaker pound, additional investment by oil producers in sterling assets of all kind dwindled to only \$0.2bn. (£0.1bn.) in 1975 from \$7.2bn. (£4.2bn.) the previous year. Build-up of shareholdings, property and no longer was enough at \$0.2bn., slightly to offset a tiny fall in other items, but was well below the \$0.7bn. in 1974, when there were such notable acquisitions, as the \$107m. take-over of St. Martins Property Corporation by Kuwait.

The U.S. took \$0.1bn. of the oil producers' investment last year, against \$11.0bn. in 1974, a not greatly changed proportion.

Indisputably as it is, total of petrodollar funds is running at a lower in 1974, the surplus continues to accrue at rates for some years to come.

Morgan Guaranty stated last October accumulated total of vested funds of the OI should reach "some" between \$200bn. (£160bn.) or 1979. And that (it) had once predicted, standard a truly form for the world financial handle.

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WORLD BANKING III

GOLD

Waiting on the IMF

ECT of 25m. 775 tonnes) of 1 off by the Inter-etary Fund, over le of years, and ty of further the U.S., have ntaining restrain- n the gold market ouths. Against nce, neither poli- ities in sensitive world nor the rest which have n exchange mar- r have produced reaction of re- culative interest

was, including the m. of its 150m. bers as well as auctioning of a of its reserves, a depressing in- market since they est August. The f the proposals at etting in Jamaica ected the market the continuing out the way in e will be handled or factor in hold- own.

is, indicating that ill handle the ill and will en- ough, not to e down against aded to provide nce. The fear a steady trickle coming on to the official sources- cation that major as the central s prepared to locally, in view of ide to take gold monetary system. monetary in- se market are if more important : they have been

ments in this have considered in which the fac- i helped to push bids being made for less than up sharply over wo years had in tons) on offer and those mostly a good deal of from Europe. The second U.S. n particular, the auction, of 500,000 ounces in nence of stock nce of alternative nce, coupled the gold price slipped back and he ratio of world markedly reduced of the metal for ast for the time

ult of this change nent last year- ble reduction in old being bought and speculative kind of demand characterised by t to achieve a relatively short- is distinguished traditional long- demand of the ar East, largely



Check weighing a consignment of 400-ounce gold bars, in the vaults of Johnson Matthey Bankers.

dominated the market during the IMF news in August, 1974. Last year, in contrast, investment demand played a much smaller part, leading to a fall in the price which has brought the value of the metal down by over a third from the peak of \$185.5 an ounce reached at the end of 1974.

The supporters of gold received a series of setbacks during the course of 1975. One important source of disappointment was the U.S. market. There had been high hopes towards the end of 1974 that when U.S. citizens were allowed to buy gold there would be a strong demand for small bars which would provide further support for the price. In the event, such demand as did appear was concentrated on gold coins rather than bullion, and the banks which geared themselves up to meet the market found that their efforts hardly justified themselves. What activity has developed, particularly on the New York and Chicago gold futures markets, has been dominated by professional, rather than personal business.

The first of the U.S. official gold auctions underlined the point in January last year, with bids being made for less than half the 2m. ounces (some 60 tons) on offer and those mostly from Europe. The second U.S. auction, of 500,000 ounces in June, brought a stronger response and made less impact on market prices. Nevertheless, the gold price slipped back and went below the \$170 an ounce level.

This fall produced another setback. Some sectors of the market had hoped that the January decision by the French authorities to revalue their gold reserves at around that level would effectively put a floor under the price, with the expectation that France would enter the market to hold it at that level. In the event, it became clear that no such support existed, and the realisation contributed to a further weakness in the price.

These events coupled with

the IMF news in August, accounted for much of the weakness in the price of gold. There was also, however, a basic change in the relationship of demand and supply on the market. On the supply side, the amount of metal coming on to the market was significantly reduced. In spite of the fact that sales by monetary authorities, including particularly the U.S., made a major impact for the first time since 1968 it has been estimated by Samuel Montagu that total supplies to the market dropped back to 1,170 tons last year compared with 1,400 tons in 1974, a fall of over 16 per cent.

The declining trend in Western production of newly mined gold, which started in 1971 and which has formed one of the main foundations of the arguments of the gold enthusiasts, continued last year. Higher prices have the perverse effect, in an industry where production capacity is effectively fixed, in the short-term, of reducing actual output as it becomes worthwhile to work lower-grade ores. Production in South Africa, the major source, fell by 50 tons to 708 tons. And with reductions elsewhere as well Montagu put the total production at 940 tons against 1,000 in 1974.

Unexpected

At the same time, there was a rather unexpected fall in the amount of Soviet gold coming on to the market. In spite of substantial purchase of grain, the Soviet Union's gold sales did not exceed 140 tons, compared with an estimated 230 tons in the previous year. It has been suggested that the low volume reflected the substantial loans raised by the Soviet Union on the Western capital markets to finance grain and other essential imports.

One effect of the reduction in prices, last year, however, was to change the balance in the hoarding market. In 1974, the increasing price of gold encouraged a large amount of dishoarding in the Middle and Far East, contributing to the supply of gold to the market. Last year, however, dishoarding—estimated by Montagu at 36 tons—took place largely in the first four months of the year. Later, the lower prices were enough to attract renewed buying by these traditional markets. Industrial demand for the metal had fallen sharply during 1974 as a result of the higher prices and remained at a low level during the first half of last year. But in the second half of 1975 there was a strong revival in demand for jewellery in the Middle East, closely associated with the renewed hoarding interest. This brought heavy purchases of gold by manufacturers of jewellery in Europe with the volume of gold imported into Italy, one of the main suppliers to these outlets, rising by some 45 per cent. to almost 80 tons.

As in the previous year, a considerable proportion of the

hoarding demand for gold was met by sales of newly-mined gold coins with the South African Kruggerand remaining the most popular. The total number of coins sold by the Chamber of Mines of South Africa amounted to 150 tons of gold, a rise of 50 per cent. over the previous year. It was, therefore, the decline in the level of net investment and speculative buying which lay behind the fall in price. Samuel Montagu estimated that speculative and investment holdings increased by about 220 tons during the year.

In contrast with a year ago, when some gold commentators were still confidently predicting prices well above \$200 an ounce, the market is now in a state of considerable uncertainty and nervousness.

SUPPLIES AND OFFTAKE

(metric tonnes—estimates)

Supplies	
New production	940
USSR sales	140
Other sources	90
	1,170
Offtake	
Europe	460
U.S.	145
Far East	160
Middle East	100
Rest of world	85
Investors (say)	220
	1,170

Source: Samuel Montagu.

Much depends this year on the monetary situation; for if gold has been demonetised, it retains important monetary characteristics as a commodity and the recent changes have if anything increased its importance as an element in the reserve holdings of central banks.

In this situation, there is an element of contradiction in official attitudes, since neither central banks nor the IMF should obviously want to depress the price too far. For the time being, the market is likely to remain nervous and uncertain, though most experts would continue to predict that over the longer-term there will continue to be an increasing demand for the metal.

Michael Blanden

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GOLD PRODUCTION

(excluding USSR)

	1975	1974	1973	1972
.....	708.1	758.5	832.2	909.7
.....	51.0*	53.4	60.0	64.7
.....	32.1*	33.0	38.2	45.1
.....	14.0*	16.3	17.1	22.3
.....	13.2*	20.0	22.7	22.3
.....	15.8*	16.7	17.7	18.8
.....	20.0*	20.0*	15.5*	16.5*
.....	6.0*	8.2	6.7	7.5
.....	4.2*	4.2	4.0	4.5
.....	10.5*	8.3	5.6	5.8
.....	3.5*	4.9	1.2	2.5
.....	19.0*	24.0	16.5	12.4
.....	1.5*	3.0	3.0	3.1
.....	36.0*	31.4	30.8	21.4
.....	940.0*	1,000.0*	1,092.0*	1,152.0*
.....	75.3%	75.9%	78.0%	78.6%

* Estimated or provisional figures.

Source: Union Corporation and Samuel Montagu.



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WORLD BANKING IV

MONETARY UNION

The goal is far away

AS HEADS of Government left

the EEC summit in Luxembourg earlier this month, M. Gaston Thorn, the Council President, formally reaffirmed that the Nine were still committed to economic and monetary union backed up by a common currency. He did not say by when. Nor did anyone appear to pay very much attention to his statement. Over the years since the objective was first propounded at The Hague summit in December 1969, the commitment to economic and monetary union has become one of the more discredited of the Community's ambitions.

To-day, the Nine seem further from the ultimate goal than the Six were in 1969. The original grandiose design of step-by-step progress to full union by 1980 has been brushed aside, and the Nine Governments are having enough difficulty grappling with the short-term problems of inflation and unemployment without trying to plan for the longer-term future. The principal instrument of monetary integration, the jointly floating currency "snake", has again been effectively reduced to a D-mark zone with the enforced departure of the French franc, and there is no inclination, except in Paris, to try to reorganise it into a Community-wide experiment.

But the most immediate reason for the scant attention paid to M. Thorn's statement was that only hours before he spoke the Nine Heads of Government had diametrically failed to agree on new guidelines for the co-ordination of economic policies, which virtually everyone now agrees must be the next step towards further integration. The old arguments between "monetarists" and "economists", which dominated the debate over economic and monetary union in the early 1970s, are no longer heard. Even France, the former "arch-monetarist", is becoming increasingly half-hearted about pushing forward new monetary ideas.

French proposals for new monetary devices, have had a high failure rate in recent years. Not so long ago, Paris was all for "bridge-building" between the countries that were "snake" members and the non-members; last year, France was insisting on the fixing of an EEC dollar rate between the "snake" and the dollar to prevent the "snake" currencies floating too high against the U.S. currency. There were no takers for either proposal. But the clearest sign of the times was the fate of the latest French monetary initiative, which fizzled out even before it left the launching pad.

Flexible

A few days before the latest summit, France privately circulated a plan for making the rules of the "snake" more flexible, bringing all Nine countries into it, and supporting it with pooled reserves. The plan met a negative response in London, and outright hostility in The Hague and Bonn. Apparently taken aback by the strength of the German opposition, President Giscard d'Estaing decided not even to mention it at the summit. Moreover, with other Heads of Government clearly expecting an initiative, he was forced specifically to deny that he had ever intended to make one.

The incident underlined, if recital by each Minister of how splendidly his own country is doing, when targets or guidelines are agreed, they reflect what each Government in-

dividually thinks it could usefully be discussed at possible so long as the should be doing anyway, rather than the outcome of a centrally worked-out plan.

Commission officials claim the procedure is no more radical than the rules for the granting of IMF loans, and point out that even Community loans, such as the recent operations in favour of Italy and Ireland, have strict conditions attached. But there is little chance of convincing the member Governments. Germany, which found the idea of a "parallel" currency least superficially attractive, immediately realised that other bolts would never wear it, decided to clear the way for a senior member of the British delegation at the summit described the proposal as "cobblers". The British view remains that the only thing that

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Attempt

Meanwhile, the Nine have once again promised to make an urgent attempt to harmonise the basis for levying Value Added Tax, where they are way behind schedule, and extend the use of the new market-related unit of member Governments. Germany, which found the idea of a "parallel" currency least superficially attractive, immediately realised that other bolts would never wear it, decided to clear the way for a senior member of the British delegation at the summit described the proposal as "cobblers". The British view remains that the only thing that

THE CITY'S PROSPECTS

Stronger competition

THE CITY of London has maintained its position as a major international banking centre despite the continued fall in the value of the sterling and the impact of the removal of restrictions two years ago on U.S. capital exports. However, London's future as a leading international market is now related far less to the availability of domestic (sterling) finance than to its role as a centre for non-sterling finance notably in Eurocurrencies and Eurobonds.

The sterling market is still, of course, of considerably greater importance than the domestic currency markets of many other countries—and received a fillip in 1974 from the expansion of the oil surpluses of the OPEC countries. However, London's attractions in this area are obviously tied in with the fortunes of the U.K. economy and the exchange rate.

In 1974, the U.K. accounted for 37 per cent or \$21bn. of the oil exporters' surpluses, according to the Bank of England's figures, but last year the proportion dropped to 13½ per cent (or \$4.5bn.) out of the much-reduced surplus of \$31.5bn. There was a reduction in holdings of Treasury Bills over the year and much-reduced purchases of British Government stock, almost entirely in the first half of the year: overall there was a negligible change in sterling investments during the year.

Uneasiness

However, non-sterling deposits held with banks in London still accounted for nearly a half of the \$9.1bn. held in bank deposits around the world. Although there has been evidence of some uneasiness among major holders of sterling this year, there is no suggestion at present of any total withdrawals. Apart from the continuing sizeable uncovered interest rate margin in favour of the pound, political factors are also likely to affect the distribution of the surplus between London and New York, and other growing centres.

The other main question over the last couple of years has concerned the City's role as the leading Eurocurrency centre. Uncertainties over the size of the market as a whole arose in particular during 1974 following the failure of the Herstatt Bank in Germany that summer. While the relative impact was undoubtedly greater in the less well-established centres, there was also a very sharp fall in the absolute level of business—of between \$1bn. and \$12bn. in three months. But the market soon proved its resili-

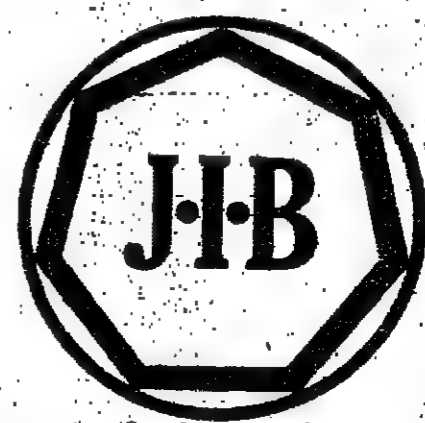
once and was growing again. Indeed, according to figures published by the Bank of International Settlements, the external foreign currency liabilities of commercial banks of the leading eight European countries increased at a rate of nearly 20 per cent, during much of 1975.

Within the broad question of the size of the Euromarkets, there is also the specific issue of London's position vis-à-vis other centres. Banks in the U.K. certainly seem to have maintained their share of Eurocurrency markets with a proportion of slightly over 50 per cent, towards the end of last year.

The question was really raised two years ago when the U.S. authorities removed the Interest Equalisation Tax and altered the Foreign Direct Investment Guidelines. It is still difficult to calculate the exact impact but it seems likely that a number of issues which might have previously been arranged in Europe are now being negotiated in New York. But there has certainly been no dramatic change, or sharp increase in borrowing by foreign organisations in New York, with the exception of the London has in Canada.

This partly reflects the continuing impact of a number of market regulations which still act as a barrier to entry. In the private sector foreign wishing to tap the market have to go to the complexities of the Securities Exchange Commission, which are also problems with the U.S. rating agencies and comparatively few companies would attract listings from the two U.S. But underlying the distinction for foreign organisations in New York, with the exception of the London has in Canada, is the natural dealing in the E.C. because of the geographic focus with regulations which still act as a barrier to entry.

CONTINUED ON NEXT PAGE



Extract from Accounts at 31st December, 1975.

	1975	1974
Issued Capital	£000	£000
Retained Profits	10,800	10,800
Subordinated Loans	1,506	981
Deposits	4,941	4,258
Loans	273,825	225,880
Total Assets	169,599	148,019
Profits before Taxation	296,810	248,164
after Taxation	1,825	1,682
	849	780

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فوائد الاستثمار

WORLD BANKING VI EXPORT FINANCE

The banks' key role

TOTAL U.K. exports for 1975 amounted to some £19.8bn, while for the first two months of 1976 they were running at around £3.6bn—or close on a fifth up on the first two months of last year. These figures give some indication of the sort of sums that change hands whenever export finance is needed. And because of the sheer weight of the money involved it is equally clear that the greater part of this financing can only flow from the major clearing banks.

Export financing has long been big business to the banking community and the range and depth of its services to industry and commerce is impressive. The banks are willing and able to advise on the best way to discover overseas markets as well as on the various methods of selling goods and services abroad.

The banks also excel when it comes to smoothing the flow of documentation. Paperwork can be a particularly nasty headache when commercial frontiers are about to be crossed; the prospective exporter has to come to terms with a multitude of restrictions, starting with exchange control. He has to pick his way through the small print in a number of contracts and insurance forms. And finally there is the actual method of financing itself.

The exporter is quite likely to incur many expenses and delays before he receives full payment for his goods, and the clearing banks offer various schemes aimed at overcoming these difficulties. In addition to normal short- and medium-term overdraft facilities, finance is available from specialist com-

panies. Roughly half the export financing undertaken by the clearing banks is done in conjunction with the Government-controlled Export Credit Guarantee Department—which is not surprising given the attractive terms on which exports can be financed once they have the backing of ECGD insurance cover.

The ECGD was created to encourage U.K. exporters by offering protection against the risk of non-payment. The insurance offered by the ECGD covers two broad categories of risk—the creditworthiness of the overseas buyer and the political and economic risks of the country concerned. ECGD insurance does not cover risks normally insured by commercial insurers—fire and marine risks, for example. Premiums generally depend on the market involved—and to a certain extent on the exporter—as ECGD will increase premiums where they are subject to excessive claims.

Share

Understandably, the exporter is expected to share in the risk of his transaction, and therefore the extent of ECGD cover is limited to less than 100 per cent, generally about 90 per cent. In certain circumstances the banks are able to extend policy management services in respect of ECGD insurance cover.

But the main attraction to the exporter of ECGD cover lies with subsidised financing. For export credit of two to three years the banks are able to limit their interest to 1 per cent over base rate, whereas

normal commercial rates would probably be between 1½ per cent and 2 per cent over base rate. For credit of between two and five years there is a fixed return of 7½ per cent which is in fact a full two percentage points below the present 9½ per cent base rate.

The point here is that ECGD cover insures by 100 per cent any export finance the banks advance, and this guarantee from ECGD is unconditional. Credit insurance was introduced by the Government in 1930, since when demand has grown rapidly. In 1949-50, exports from the U.K. totalled £1.9bn, of which 11½ per cent was insured by ECGD. By 1974-75 the department's share of the total U.K. export credit market had risen to very nearly 34 per cent of exports amounting to £17.5bn.

One problem the banks have had to grapple with in recent years is foreign currency fluctuations. Thus increasing competition and instability in the foreign exchange markets mean that the U.K. exporter has to quote prices and accept payment in a foreign currency and in so doing shift the exchange risk on to himself.

The exporter can in fact cover this risk by arranging forward contracts with a bank—and by doing so he may even be able to increase his profit margin or at least find himself more competitive because he will know just how much payment will be received, enabling sales prices to be calculated more easily. The banks can convert foreign currency payment into sterling at a fixed rate regardless of what the current rate may be. Many countries have restric-

tions regarding the type of goods which they will allow to be imported as well as the amount of foreign currency which can be made available for their payment. The banks are in a position to discover swiftly and at modest cost just what are any given set of current regulations.

Certain countries that take exports from the U.K. do not have enough sterling to pay for their essential imports. At such times, even though the overseas buyer has sufficient funds, the exporter cannot expect immediate payment. In this sort of case the accepted practice is

for the overseas buyer to pay for his goods in local currency when he receives shipping documents. This money is lodged with a bank and the exporter is paid only when the exchange has been allotted. This lapse of time can often extend for some months.

Thus the banks play an important role in the negotiation between an overseas buyer and a U.K. exporter. The simplest way for an exporter to receive his money is for documents of title to be sent direct to the overseas buyer, who could then pay by means of cheque, or money transfer. This is known

as an open account, and it can be sold. But as with an open account the exporter is parting with his goods and relying on a specified in the de-

For example, a cheque might be returned unpaid—either because the foreign buyer to pay when the amount is due. A safer way of change control regulations, or payment is a method where the through a lack of funds on the exporter has control over his part of the overseas buyer. This shipments until payment is would delay settlement, and in made. Banks would urge the use extreme cases cause settlement of the collection basis, and go fail. As the goods would presumably have been shipped letters of credit.

The latter is perhaps the most and most prompt form of obtaining payment for goods consignment basis. In this case, the overseas buyer agrees with his bank to instruct and payment is made by agent a U.K. bank to pay the exporter only when the goods have been providing he presents docu-

ments that conform the instructions and specified in the de- credit. In order to a usually total protecti non-payment, espo demand irrevocable credit by one of i banking houses in th means that the confi warrants to the ex the letter of cred honoured irrespecti might happen either seas buyer or to t bank which the for originally instructed.

Jeffrey

INTERNATIONAL MARKETS

Slowdown in activity

THE EVENTS of the last two years have profoundly altered the structure of international banking. Moreover, although the climax of the strains and stresses in international banking was in 1974, there is no sign that the changes which were set in train will be reversed.

The reasons why the changes are likely to prove permanent lie, perhaps, in the longer term trends of previous years rather than in the immediate crisis associated with the closure of Bankhaus L. D. Herstatt and the crippling losses incurred by

banks in many industrial countries on property lending and on the foreign exchange markets. The long-term trend had been a massive expansion of banking business in general and of international business in particular—an expansion which had cut the ratios of banks' equity to total assets to levels below which they could not be cut any further and which had also seen the foreign share of the assets of the world's major banks rise from tiny proportions in 1960 to well over 50 per cent. Expansion could not con-

tinued: new loans now have to be provided from the proceeds of repayment of earlier loans except insofar as banks are able to increase their capital. At the same time the scale of international banking transactions multiplied. On top of the existing tendency towards increased concentration inter-

nationally on financing huge investment projects such as the development of the North Sea oil and gas reserves came the multiplication of balance of payments deficits as a result of the oil price rises. The crisis of confidence after the Herstatt collapse concentrated deposits in the hands of the biggest banks, thus inducing a multi-tier structure in the international inter-bank markets as smaller banks had to bid higher rates in order to attract deposits. This in turn reduced the smaller banks' capacity to participate in the biggest single area of the international banking business—syndicated lending—where the rates paid by the borrower are calculated by reference at best to the average

rate of inter-bank interest rates, and more usually by reference to the rates at which larger banks offer funds.

This multi-tier structure persists to-day, though the differentials between the rates paid by big and by small banks has narrowed.

The coincidence of these various trends with the international banking crisis of mid-1974 posed various questions for the future of international banking. Now, nearly two years later, it is perhaps possible to see some of the directions in which the situation is developing.

One important point which is so obvious that it is seldom made is the slowdown in the extent to which banks are setting up new offices overseas. Although certain areas such as the Middle East are still candidates for expansion on a significant scale, and although interest in some of the world's major syndicated loans by banks (particularly Continental are increasing, the

European banks) under-represented own countries, the international banking substantially comp will doubtless cont filled over time, but in the establishment branches and re: offices by internati will surely not occ

The second is a new lending in gen seems little likely banking. Now, nearly two U.S. banks in partici ing the share of it capacity which the international busi many argue that wh awaited expansion could even be a sl increasing the pr new loans which companies within th the Middle East are signs that th dates for expansion on a banks—which she significant scale, and although interest in parti some of the world's major syndicated loans by banks (particularly Continental are increasing, the

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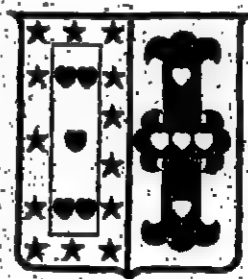
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هناك اصرار العمل

WORLD BANKING VII

FOREIGN BANKS in LONDON

City's status maintained

Bank opened not have full banking opera- tions in London. It is not often realised that foreign bank branches in London control more than twice as much money (£71.8bn.) as the London clearing banks (£32.1bn.). American banks alone account for £36.3bn. and Japanese banks account for £12.1bn. The bulk of foreign banks' business is in the Euro- currency markets. They manage £140bn. or 80 per cent. of all U.K. banks' foreign currency liabilities. They provide 57 per cent. of the foreign currency requirements of the U.K. public and private sectors.

Their role in the sterling market is nowhere near as im- portant but is still significant. Total sterling deposits amount to £8.6bn.—15 per cent. of the total. This is just under a third of the London clearing banks' sterling deposits. Sterling ad- vances amount to £3.1bn.— twice the figure for the Scot- tish clearing banks and over four times the figure for the ac- cepting houses. Such figures underline the City's importance but not all bankers are as enthusiastic as Mr. Ulrich von Clemm, of Credit Suisse White, who con- cluded at a recent Financial Times conference that "while the City is apparently holding currency syndication activity, its own as a pre-eminent finan- cial centre, its prospects for continuing in this role have not been as dim as they are today."

Closed

Nevertheless, some of the major American banks are clearly re-thinking their role in London. Some have decided to drop unprofitable personal bank- ing services. Chase Manhattan is in the process of closing its Knightsbridge branch and will cease offering teller services at its Berkeley Square branch from June. Citibank has closed its West End branch in Bruton Street and its small City branch in Moorgate. On the wholesale side certain bankers perceive a gradual re- duction in London's pre- dominant role in the Euro- currency markets. Fred Schwartz, who heads Bankers Trust's Euro- currency syndication activity, believes that "decision-making appears to have moved from London in the direction of the New York office."

Over the past two years some American banks have had to mount expensive support opera- tions for their fledgling mer- chant banking subsidiaries (set up in the halcyon pre-Berstat era) which ran into problems in areas such as U.K. property lending. Marine Midland, for instance, specifically mentions, in its latest annual report, the adverse impact of the London merchant bank on its own earnings.

As a result, head offices are exerting much tighter control of their London affiliates, the em- phasis on domestic U.K. business has been dropped as has the concern for growth per se. Most are now following the successful example of Citicorp Inter- national Bank and Manu- facturers Hanover and developing into the syndication arms of their parent banks—concentrat- ing on fee incomes rather than balance-sheet growth.

Apart from loan loss prob- lems a perennial worry for the foreign banking community is the continuing rapid growth in U.K. operating costs. London's costly office accommodation is no secret. Prime office space is twice as expensive in the City as in Paris and four times as expensive as in Frankfurt and Brussels. In addition phone and telex charges are rising twice as rapidly in London.

Against this must be set the markedly lower level of London salaries compared with Con- tinental and North American financial centres. In fact Dr.

von Clemm argues that since salaries are such an important element in total operating costs, London is in reality no more expensive than competing finan- cial centres and is certainly not pricing itself out of the market. A much more serious threat to London's long-term future is the steady rise in U.K. taxes. Bankers' grievances centre on the recent increase in U.K. cor- porate tax from 40 to 52 per cent. and the Inland Revenue's insistence that a profit be attributed to U.K. funding operations.

As a result more and more business is being booked out- side London. Over the past year the foreign banks have managed to win some conces- sions from the Revenue. In November the Government announced that it would put foreign bank branches on the same footing, with respect to foreign tax credits, as British banks. Before this, U.K. banks had a built-in cost advantage when quoting for loans in certain countries.

Concessions

Despite these concessions the Inland Revenue appears deter- mined to increase the tax burden of the foreign and con- tinental banks in London. The possibility of taxing dollar- denominated subordinated debt which has appreciated in value against sterling, has caused con- siderable dismay. In the case of a bank such as London

Multinational, whose dollar subordinated loan stock rose by £1.6m. during 1975, the Revenue is demanding an extra £508,000 tax on top of the £1.1m. in corporation tax. This has the effect of turning the bank's 31 per cent. gain in after-tax profits in 1975 into a 35 per cent. fall. Roughly half Lon- don's consortium banks are affected, as are some of the U.S. merchant banking sub- sidiaries.

The banks are steadfastly re- fusing to pay the extra tax and have taken the issue to counsel. Even if, as most people expect, the banks win their case, foreign bankers are amazed that the Revenue could even contemplate such a move. Many agree with Stan Yassukovich's view that "the high rate of U.K. corporate tax is probably the greatest deterrent to new organisations coming to Lon- don."

No one is expecting a mass exodus of foreign banks from the City. Indeed, it would be very surprising if any major bank planned to withdraw. Nevertheless, there are signs that for reasons of tax, operat- ing costs, or whatever, London's relative importance is declin- ing. At a minor level it can be seen in the fact that several Lebanese banks such as Banque du Liban et d'Outre Mer have picked Paris rather than Lon- don as a temporary refuge more until Beirut returns to normal. More important, however, is the fact that the number of foreign

LONDON'S FOREIGN BANKING COMMUNITY, 1870-1976

Year	Total	U.S.	Japanese	Euro- pean	Other foreign
1870	10	—	—	2	8
1914	29	3	1	8	17
1950	53	7	4	19	23
1960	77	10	8	28	31
1966	103	14	12	34	43
1967	109	15	12	37	45
1968	125	23	12	39	51
1969	144	32	12	45	55
1970	159	37	12	50	59
1971	172	40	15	53	64
1972	202	50	19	60	73
1973	228	53	21	78	76
1974	248	61	23	84	80
1975	244	57	23	86	78

Total assets (£bn.) 71.8 36.8 12.1 22.8
Source: The Banker.

banks in New York (though far less than in London) is growing far faster.

In terms of actual business there can be no denying New York's increasing importance. Since the ending of capital con- trols in 1974 American banks' foreign lending from head office has increased by 114.2 per cent. to \$87.2bn. (end-1975). By comparison U.S. banks' Lon- don branches had only boosted their lending by 20 per cent. to \$73.9bn. Even though U.S. banks' foreign branch lending is growing considerably more slowly than home office foreign lending, London's performance is still well below average.

William Hall
The Banker

International

FROM PREVIOUS PAGE

ut these banks age, can take decisions with greater speed than previously that led to the remarkable loans between 1972 and 1975.

is the increased size in interna- tional banks. This is a trend and smaller banks are justifi- cally no longer any. What does ever, is that the much less international than they past.

ly because of the multi- the inter-bank was mentioned also partially

g into compe- smaller banks on- do not have the resources to- they can now pre-underwrite, while the high-flying bigger banks prefer to concen- ch. hitherto trade their resources on- at an early the fees.

Slowdown

Most important of all how- ever is probably the increase in circumspection in the markets and the slowdown in activity itself. In the boom years before 1974 almost anyone could sell almost anything. This is not to suggest that the smaller banks marketed worse risks than the larger banks, merely that it was much easier for smaller institutions to find investors for loans or issues than is the case now.

Even a relatively small deal may need to be pre-underwritten before it comes to the market and by setting these days, the smaller banks do not have the resources to- they can now pre-underwrite, while the high-flying bigger banks prefer to concen- ch. hitherto trade their resources on- at an early the fees.

The other side of the coin is that the smaller banks continue to thrive. The rationale of the consortium banks has been and investors which the cumber- some structure of most commer- cial banks prevents.

The truth of the matter is probably that the markets are big enough for both big and small banks. Even if 90 per cent. of the world's inter- national banking business were to fall into the hands of big commercial banks, the remain- ing 10 per cent. would probably be sufficient to keep the smaller banks in comfortable profit.

Mary Campbell

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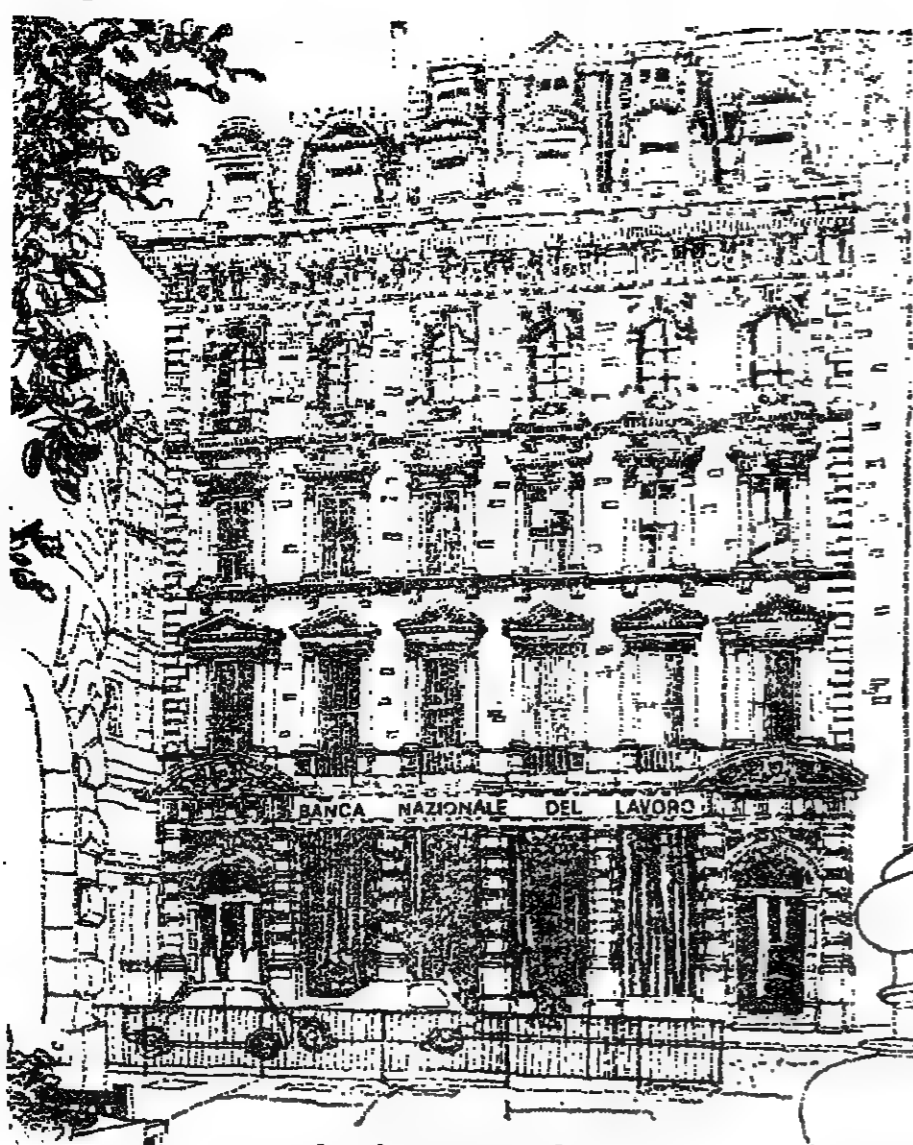
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WORLD BANKING VIII

ITALY

A sea of troubles

ITALIAN BANKING is a customer is often committed to a degree of horse-trading over what interest rate he earns on his current balance: if he is ignorant of the system, he is likely to lose out, even though the banks may have announced a formal decision to increase rates, and one would have reasonably expected that such adjustments would be automatic across the board. Not so, but it is very much automatic when ever rates go down!

Labour

It is hardly surprising then that bank overheads in Italy are high, with one estimate that labour works out at approximately £13m. per head annually, or more than £8,000 at the current exchange rate. Despite such costs, the major banks do nicely, some years better than others, but all the time profitably. They charge well for their every service, take a particularly cautious approach to assessing credit risks and manage to maintain (or are allowed to do so by the authorities) a generous spread between lending and borrowing rates.

Their incidence of doubt debts ("bad") is a category which in Italy only comes at the end of a long line of rolling over) is low: the past year has seen more than its fair share of corporate collapses, yet against a fierce recessionary background, the banks on average succeeded in limiting their dubious debts to not much more than 1 per cent. of total advances. Depending on the bank, the actual

are putting the onus and the legal liability on to bank staff to ensure that there is no falsification of import and export documents, one of the classic Italian routes for getting money out of the country.

Right now bank employees are threatening industrial action to reinforce their argument that such policing is not their legitimate function, but one can only guess at the really appalling mountains of paper which will accumulate in banks if all commercial transactions are now to be thus vetted. Any resulting tightening of illegal money channels may be minimal, but the entire process should certainly greatly disrupt ordinary commerce, which is hardly what the country wants at a time when it is struggling to break out of the present severe recession.

If the overall profitability of the Italian banking system has not been hit adversely by the recession, the same cannot be said for the corporate sector generally. Depressed sales and higher production costs throughout 1975 have combined to produce the present situation, in which a major company reporting any sort of profit is indeed a rarity, and even the very occasional exception represents a minuscule return on capital employed. The situation has not been quite so bad with many of the small to medium-sized companies in the industrial north, but they have nothing like adequate resources for essential investment if Italy is to capitalise on the steady upsurge of demand in many of their main market areas, most noticeably West Germany and the U.S.

The Italian capital market remains underdeveloped, and these very companies urgently needing investment funds have not much option but to have recourse to the commercial banks, a source which has been rightly criticised in the past for

failure to respond adequately to their needs. It remains a legitimate criticism of the Italian banks and, on a wider plan, of the whole capital market, and it should be remembered that the industrial backbone of Italy is in large measure made up of these small to medium-sized companies, and not the notorious State-sector industrial giants—notorious as much as anything else for their inefficient presidential management structures, and their seemingly endless capacity to return huge losses.

The financial base of most of these groups are a mess: the criterion used for filling the top jobs in them is still based more on political patronage than real commercial merit, and a somewhat lesser extent, also applies in the Italian banking world. Indeed, Mr. Guido Carli, the distinguished former Governor of the Bank of Italy, had this swan-song, and he should know: "our political forces are not interested in how well the banking system works, the policies it proposes or carries out. They merely want to get their own benches into the system and keep those of rival power groups out."

general election from which it seems, only the Communist Party, which already commands the support of one in three of the electorate, will really benefit. The run on the lira which forced the authorities to close the market temporarily on January 20, was prompted in the main by a political evaluation of Italy's prospects, not by conventional economic criteria, and a fair portion of the funk money sprouting wings earlier this year was of the home-grown variety and not the stuff of international speculators. In such a situation, foreigners are not slow to get the message.

Italy to-day remains as far away as ever from Dr. Baffi's "golden triangle" of price stability, full employment and external balance, but confidence in the system, and that inevitably includes the banking system as well, revolves more and more around political questions. Are the Communists to emerge directly into the Government process, following the next general election, whether through their own particular "historic compromise," or a kind of popular front with the Socialists? If the answer is yes, and that remains the forecast of most Rome-based observers, where stands the lira and foreign confidence in Italy, at least (perhaps indeed only) in the short term?

Presence

Signor Carli at least tried his best, although as he himself has acknowledged, not always with success, but his presence at the helm of the Bank of Italy did no harm to Italy's reputation abroad or to foreign confidence in the Italian banking system, and even despite some reversals, notably improving the stock exchange Sindona affair. The situation to-day is different, and it is not the fault of Carli's successor, Dr. Paolo Baffi. The lack of international confidence in Italy to-day is a political reaction as the country edges towards a

The real pessimists wonder whether, in fact, a conventional banking system would survive in such a situation: very many more Italians note the efficient organisation of the Communist Party, its professed commitment to a mixed economy, and even its proposals for reforming and improving the stock exchange as a source of capital for industry, and they are much less worried. Who knows, it could even be easier to cash a personal cheque!

Dominick J. Coyl

FRANCE

Breathing more easily

THANKS LARGELY to the easier money and credit policies adopted by the authorities, the past year has been a much happier one for the French banking sector after the pressures of 1974. During the 1974 financial year, most of the bigger establishments, particularly the nationalised banks, suffered badly under the dual constraints of the supplementary reserves which they were obliged to deposit with the Bank of France under certain conditions and the high cost of refinancing.

The most striking example of the depressed state of the banking climate was the sharp deterioration in the results of the Credit Lyonnais, one of the "big three" nationalised banks, which for the first time in its history reported a huge loss of Frs. 153m. (about £15m. at the time). Policy mistakes were undoubtedly responsible for this situation, but at the root of it all was the rapid rise in refinancing rates, which rose from as little as 3.5 per cent. to 14.5 per cent. during a relatively short period of 18 months.

The 1975 financial year marked a complete reversal of

Government policy. The recession, the worst in France's post-war history, obliged the authorities to take expansionary measures aimed principally at stimulating public works and industrial investment and, to a lesser extent, consumer spending. Banks' reserve requirements for sight deposits were progressively brought down from 17 per cent. at the beginning of last year to 2 per cent. by the end of September, the lowest level since 1967, while reserve obligations for time deposits and savings accounts were completely suspended.

The authorities' interest rate policies, aimed essentially at bringing about a greater reduction in short-term than in long-term rates as well as reducing the gap between the rates paid by borrowers for bank loans and those accorded by banks on time and savings deposits, have turned out to be something of a mixed blessing as far as the banks are concerned.

While borrowing-and-lending operations have been facilitated by the Government's anti-inflationary policy and the return of the franc to the joint European float in the summer of 1975 enabled the authorities to adjust interest rates to a level rates, which in 1974 were frequently maintained below day-to-day money rates, applicable to short-term borrowing by which still acts as an important guideline, although it no longer rates in 1975. But the move-

ment was no more than relative and base rates were nevertheless progressively reduced from 12.4 per cent. at the very beginning of the year to 8.6 per cent. by September, when the Government adopted its autumn refractionary package. Day-to-day money rates followed suit, falling from 11.5 per cent. at the beginning of the year to 6.45 per cent. in December.

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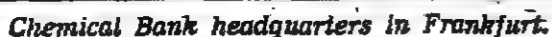
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on which cover the liabil-
ities and savings banks.



Nicholas Colchester
Bonn Correspondent

CONTINUED FROM PREVIOUS PAGE

reforms" of 1986, d the distinction it banks and the faïres." has now French banking UBAP, for instance, no means stood ast three years. sbn." worth of medium-term loans to Arab countries many of the big year, while FRAB Bank has have opened up d. The Arab oil- ntries, the Far t America have it areas for the f business.

ium

several Arab- n banks, such e Banques Arabes UBAP), in which is has a 40 per tAB Bank set up e Générale and the Banque ernationale d'In- vestissements (BAII), with of total transactions compared Banque Nationale de Paris with the British capital's 50 per cent. The French banks could hardly fail to cash in on all this new business originating or flowing through Paris. The Credit Lyonnais has become the leading European bank to manage Eurocurrency loans, while Paribas and Credit Commercial de France, both privately owned banks, are among the principal banks in the world managing or co-managing Eurobond issues.

Speciality

So-called "offshore" operations have become a speciality of French banks. While the use of residents' funds for Euro-market transactions are subject to strict controls, banks are free to raise money from non-residents for re-lending abroad without having to comply with normal minimum reserve re-

quirements for such deposits. These transactions are also exempt from withholding taxes on interest payments.

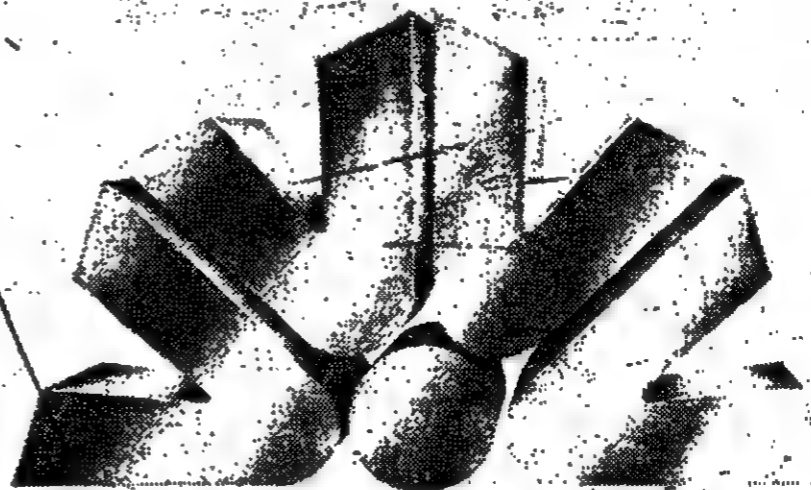
Medium-term Eurocurrency loans floated by bank syndicates, which reached a high point in 1974 when the French Government was forced to borrow massively to cover its balance of payments deficit, dropped sharply last year. But with the re-appearance of a trade deficit this year and the loss of a substantial proportion of France's reserves during the currency crisis which led to the withdrawal of the French franc from the joint European float last month, the Government and other French borrowers can again be expected to turn to the international market during the current year.

Robert Mauthner
Paris Correspondent



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WORLD BANKING X

IRELAND

A sticky patch

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IRELAND's economy is going through a sticky patch. The trade unions are still at daggers drawn with Government and the employers over the question of a pay pause, and after nearly four months' haggling the two sides are no nearer agreement.

With Ireland way out ahead in the EEC league table of inflation—approaching 20 per cent. it is about twice the European average—a pay pause is increasingly vital. At the present rate of economic deterioration, Ireland's sticky patch is liable to lose its temporary nature.

The Republic's financial community is clearly worried. One of its chief fears is that the general worldwide recovery may well by-pass Ireland for a while. Not only is persistent inflation taking its toll of export earnings; with only 14.3 per cent. of all exports going to those economic dynamos, West Germany and the U.S., the chances of Ireland being carried along on a wave of expanding international trade seem remote.

Unemployment, too, remains stubbornly high at over 13 per cent.—two percentage points higher than in economically stricken N. Ireland—so there is growing anxiety that unless inflation is brought quickly under control Ireland will return to the bad old days of very high structural unemployment.

It is a gloomy picture, made all the darker by the speed with which Ireland has changed

from thrusting growth to stagnation and apparently inexorable decline.

Two years ago things looked very different. Assessing Ireland's first year of EEC membership, the Irish Banking Review reported to its readers that it had "proved extremely favourable for Irish industry with the rate of growth output reaching approximately 11 per cent. This was more than twice the rate of growth of the previous year." Exports for the preceding year had risen by about 34 per cent. — thanks largely to massive sales gains within the EEC — new industry was still on the increase and job creation at a new high.

Advance

Thanks to strong progress in the chemicals, metals and engineering industries, job creation in 1973 hit 7,000, or 3 per cent. Compared with 1971-72, when redundancies in textiles, clothing, footwear and the paper and printing industries produced a net loss of almost 3,500 jobs, it was a considerable advance.

It appeared as if the 1970-78 target that Ireland's foreign investment agency, the Industrial Development Authority, had set itself of 50,000 new jobs, or 6,000 annually, was well in hand. But by 1974 there was again a net loss — of 4,000 manufacturing jobs — and by last year that loss had increased to 20,000.

New employment is crucial to Ireland's economy. And after 1975's economic doldrums, when the recession bit harder than intensive industry.

There is now, however, a growing school of thought that the Republic should suit its development strategy to its stockbroking firm, Goodbody, (and therefore and that employment) problem; and that the emphasis should revert to new labour-intensive industries.

At present, the Dublin Government is working on the preparation of a Five-Year Plan aimed at coping with such structural difficulties as employment. Whether it will face up before that can happen. At the same time, the long-term picture of bringing unemployment down to a manageable rate of, say, 4 per cent. is far from encouraging.

The latest studies show that Ireland's level of unemployment of about 13 per cent. with 117,000 jobless, is not likely to fall below 100,000 this year.

Continued unemployment will naturally depress economic recovery, and it is next year's prospects that are now giving concern.

Ireland, with its greatly improved living conditions of 90 trade unions that make up the post-war period, no longer has the safety-valve of emigration. If anything, the Irish Department of Trade has the safety-valve of emigration. If anything, the Irish Department of Trade has the safety-valve of emigration. If anything, the Irish Department of Trade has the safety-valve of emigration.

As a result, Ireland faces a serious population explosion, and between now and 1985 there will be 500,000 more people than the present 3m.

For unemployment to fall to 4 per cent. by then, it has now been estimated, 30,000 new jobs must be created every year.

For a small country such as Ireland, it is a problem of alarming proportions and one where the solution may well require a re-think of the high inflation and economic Republic's industrial development strategy. During the boom years of the 1960s, Ireland's tax incentives to foreign industry and its ready supply of relatively cheap labour ensured a steady stream of new investment. Between 1960 and last year over 800 foreign industrial projects, two-thirds of the total, were initiated.

As the latter-day industrial revolution gained momentum, Ireland's view of itself changed rapidly. No longer content to provide unskilled and semi-skilled labour for foreign companies, Dublin pressed for

more high technology investment. The emphasis changed from labour-intensive to capital-intensive industry.

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For unemployment to fall to 4 per cent. by then, it has now been estimated, 30,000 new jobs must be created every year.

For a small country such as Ireland, it is a problem of alarming proportions and one where the solution may well require a re-think of the high inflation and economic Republic's industrial development strategy. During the boom years of the 1960s, Ireland's tax incentives to foreign industry and its ready supply of relatively cheap labour ensured a steady stream of new investment. Between 1960 and last year over 800 foreign industrial projects, two-thirds of the total, were initiated.

As the latter-day industrial revolution gained momentum, Ireland's view of itself changed rapidly. No longer content to provide unskilled and semi-skilled labour for foreign companies, Dublin pressed for

more high technology investment. The emphasis changed from labour-intensive to capital-intensive industry.

There is now, however, a growing school of thought that the Republic should suit its development strategy to its stockbroking firm, Goodbody, (and therefore and that employment) problem; and that the emphasis should revert to new labour-intensive industries.

At present, the Dublin Government is working on the preparation of a Five-Year Plan aimed at coping with such structural difficulties as employment. Whether it will face up before that can happen. At the same time, the long-term picture of bringing unemployment down to a manageable rate of, say, 4 per cent. is far from encouraging.

The latest studies show that Ireland's level of unemployment of about 13 per cent. with 117,000 jobless, is not likely to fall below 100,000 this year.

Continued unemployment will naturally depress economic recovery, and it is next year's prospects that are now giving concern.

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BELGIUM/LUXEMBOURG

Defending hard

THERE are likely to be two predominant themes in Belgian economic management over the next few months. The first will be the attempts to encourage industrial recovery from the recession without at the same time refuelling the wage inflation which is Belgium's particular curse. The second will be the maintenance of the defences around the Belgian franc until Belgium's record on inflation ceases to look conspicuously worse than that of other members of the currency snake.

The lines of both these policies are fairly clearly defined. The economic recovery is well under way, with the national bank's synthetic curve (a synthesis of ten time series embracing manufacturing, construction and the retail sector) showing in February its sixth consecutive monthly rise, indicating a more vigorous recovery than had been indicated. The fourth quarter recovery, which marked the end of the sequence of gloomy statistics, is attributed to the end of destocking across wide sectors of trade and industry, and upturn in foreign demand, and increased consumer spending.

The surprise packet in this recovery was the role played by consumer demand, since in Belgium it is usually exports which determine the business cycle. Household goods and new cars showed buoyant sales, helped by a number of measures to ease hire purchase conditions and by a noticeable dilution in the propensity to save.

GNP is forecast by the Ministry of Economic Affairs to rise by 2.7 per cent. this year, B.P.Y. 40,250 a month. Rents are blocked until the end of 1975, while fears that the severe monetary squeeze applied in the defence of the Belgian franc

will cause price increases, which are currently running at around 9.9 per cent. a year.

Other measures include change in employers' social security payments to relieve the burden on labour-intensive industries, investment aids and a beefing up of the country's export credit facilities.

The complement of these measures is the simultaneous establishment of a public holding company—a concession to the unions—to act as a sort of national enterprise board. This has been ferociously contested by industry and by the banks, who have seen in it the seeds of a steady extension of State control of the economy, particularly dangerous in view of the increasing difficulty in financing investment from private funds.

As these measures were going through parliament the Belgian franc was suffering a severe buffeting on the foreign exchange markets, being pinned for a week to its floor against the D-mark and needing heavy support.

Belgium's decision to defend the franc was founded on the belief that the balance of payments was essentially sound (its weak point in the trade balance); the effect of the two-tier market on diffusing speculation, the perceptible economic recovery and the hope it gave for exports; available reserves; and the need to resort to borrowing (Belgium has virtually no external debt).

The Belgian franc's problems have been its psychological association with the French franc, while its material links are more with the D-mark and the Dutch florin. The Belgian franc's difficulty in living with the Dutch florin in the Benelux mini-snake with a 1½ per cent.

CONTINUED ON NEXT PAGE

الجمهورية الجزائرية الديمقراطية الشعبية

WORLD BANKING XI

THE NETHERLANDS

Profits rise but loan demand is low

commercial banks 1975, which is up by some 15% on 1974. Advances reached an estimated 1975, a year of 1974, which was up by the more foreign about 15% on 1974, a rise considerably below that of the year before.

The sector has seen a year of very limited expansion following the Herstatt developments, the banks' Euro currency business was cautiously expanded again in 1975. It was estimated to have totalled 1975, compared with 1974 and 1973, according to figures published by one of the Dutch banks.

In their 1975 annual reports, the banks issued a number of warnings about the continuous process of profit erosion taking place in the private corporate sector, a process that continued last year. A familiar problem in Holland is that of productivity lagging behind the rise in labour costs, and this has continued for several years. Companies have been hit hard by the falling export demand, on which they are heavily dependent, and as well as high labour costs, another main problem in many markets has been the continuing strength of the guilder.

This, it is commonly agreed by the banks, is largely attributable to the country's artificially strong balance of payments position due to the availability of massive natural gas reserves, which has made vast exports possible. However, domestic deliveries of natural gas will still rise until 1978, according to present estimates, after which they will start to decline gradually. Unless really major new funds are made, Holland could become strongly dependent on imported gas sometime after the turn of the century.

Limited

Opportunities for profit retention and the attraction of new equity have become more limited. Company financing positions have changed dramatically over the past few years. The ratio of equity to borrowed capital for companies listed on the stock exchange was still in favour of the former at over 40 per cent in 1967, but had declined to only an estimated 20 per cent in 1974.

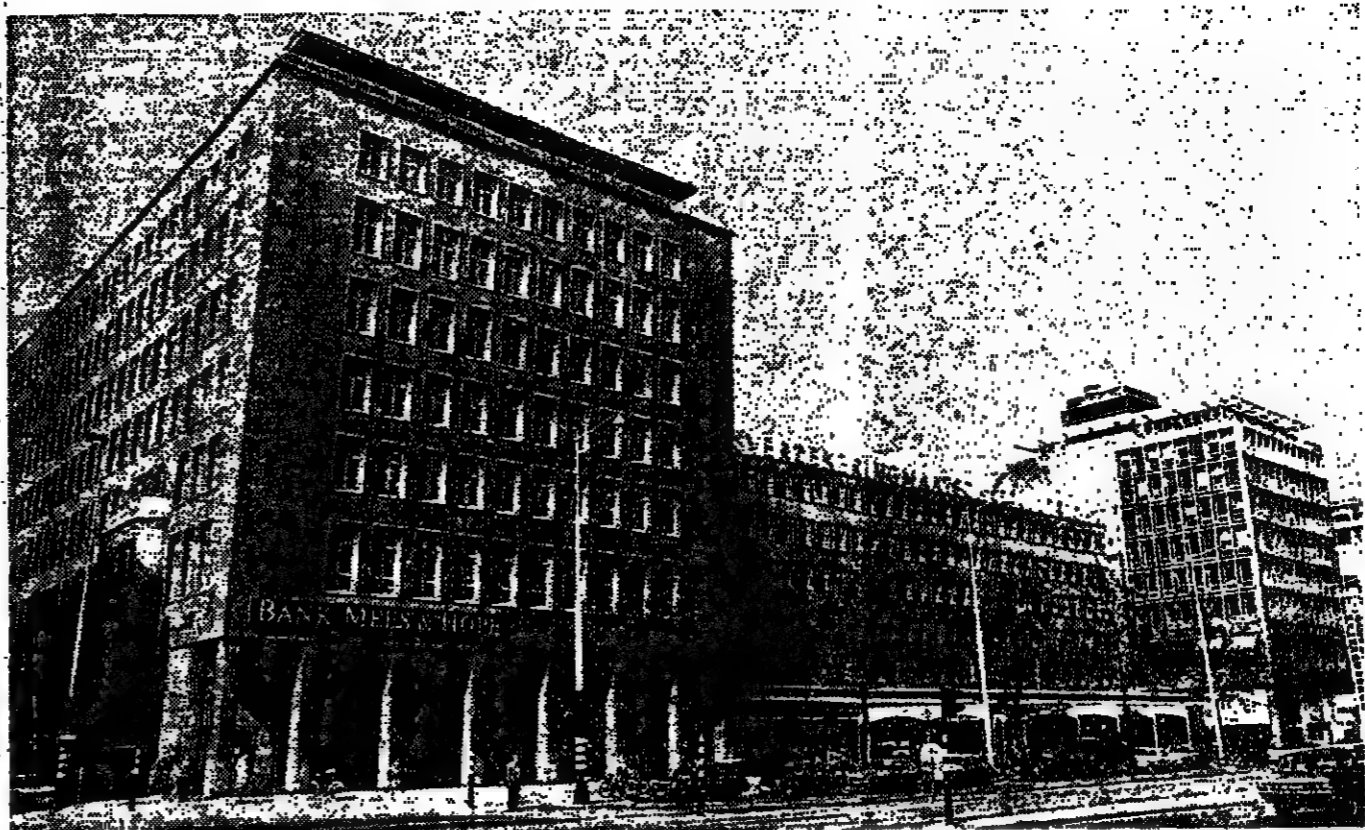
The banks have also pointed to their own problems in financing the corporate sector during a period of continued inflation when their own resources must be made to rise. To ease the situation, the Dutch Central Bank has recently relaxed its solvency directives. A popular means of bolstering the banks' own position has been the floating of subordinated loan stocks, which the Central Bank has agreed may be regarded as equity capital.

The past year has been particularly notable for important concentrations in the domestic banking scene. Even today rumours persist that further mergers or take-overs are possible.

Pierson's was acquired by Amro Bank and the private partnership has meanwhile been converted into a limited company. Pierson's said it would now be able to move towards further international expansion with the aid and capital backing of the Amro group, which has taken over the company's very limited retail activities. In addition to Bourse activities, servicing corporate clients will be a main part of its business—a sector in which it will be competing, interestingly, with Amro itself and Morgan Labouchere.

Morgan Labouchere was set up after Morgan acquired a 50 per cent interest in the Amro subsidiary, Labouchere. Morgan Guaranty, which threatened to lose its Dutch position when taken over by ABN, had first considered opening its own office. The top management of Morgan Labouchere is now in the hands of Morgan. ABN, which has yet to straighten out certain problems at Meeus En Hope, has stated that its new subsidiary—which marked the second big concentration move in Holland last year—will increasingly focus on the corporate sector while the retail activities are expected to be turned down.

The other major Dutch bank, which all have foreign affiliations—except NMB in which the Government has a large minority interest—have all stated publicly that they prefer to stay independent. The smallest of them, Van Lanschot, which has ties with National Westminster, said it had arrived at this conclusion after an internal study. It said it would strengthen its co-operation with the U.K. bank and noted in its annual report, with reference to the recent big takeovers, that "the Dutch banking sector has been impoverished as a result as far as diversity is concerned." Slavenburg's Bank, which has links with First National Bank of Chicago, said in its annual report that a situation had now arisen which made it desirable that the remaining independent



Coolingsel in Rotterdam, with Bank Mees & Hope on the left

banking institutions maintained their often very special positions in this sector. "This will certainly require effort, in view of the fact that the growing number of foreign banks (in Holland) has stepped up competition," it added.

Before Parliament at the moment is the revised draft Bill governing the supervision of the credit sector. "Wet Toezicht Kredietwezen." Of the current draft Bill, ABN notes in its present its findings to the annual report that it is not happy with the proposal to end of this month. The present transfer the decision-making Finance Minister has said he is responsible partly from the concerned by the market erosion central bank to the Minister of the position of state PCGD Finance. It writes, "Since the and the RPS. They are unable Government itself is an inter- to offer the full range of financial services which the private through the Postchequebank Giro- credit institutions can.

As for the general economic business community has ex- situation in Holland, a largely pressed some concern is the export-led recovery has started though it is generally agreed to January 1, 1975—a year few that the improvement is very slow. Industrial production and profits—of some form of a business surveys have confirmed company capital growth sharing increased activity, but the level of business investment is still will go to a common fund for static. The annual rate of inflation has declined gradually over the past few months compared with early last year, moving at around 8.5-9 per cent at present. via the works council are also With the aid of stiff price regulations and a pay freeze in the first half that may be continued Economics Ministry on the future economic structure in ment still optimistically hopes Holland will give some Govern- for a rate of price inflation of 6 per cent towards the end of investment planning.

Michael van Os
Amsterdam Correspondent

One matter on which the

gium and Luxembourg

FROM PREVIOUS PAGE

he dissolution of the franc withdrawal made the mcy an obvious set.

ment is defending hard monetary states have been sly (one month, ney was at 13 per aster), rediscount ced, the National bank and its rate aised from 6 to 7 the system of mercial banks to definite propor- total Belgian franc residents in the lic sector bills or as been re-intro- ment's majority d to control the ick this year (ex- some 150bn.) of the defence of It has turned for more money

from the social security sector and in limiting the right of people out of work to turn down job offers. It is also trying to bring the budgets of semi-State bodies back into equilibrium. This is the broad economic background against which the financial sector will be operating in Belgium. On the subject noting that in July last year a new regulatory framework was introduced intended to bring banks and private savings institutions under uniform control. The new system is also intended to extend controls over private finance intermediaries through powers vested in the banking commission. In addition, controls over forward exchange transactions are strengthened, while closer supervision is now exercised over operations carried out by the subsidiaries of private finance organisations. With indications that 1976 is going to be an annus mirabilis for Eurobond issues, Luxem-

bourg is likely to enhance its position as a major financial centre. The great era of Luxembourg expansion is probably over, if for no other reason than that almost everybody who needs to be in Luxembourg is already there. The emphasis now will be on the increasing sophistication and diversification of the services offered. The rapid growth in investment trusts in the Grand Duchy is one pointer to this diversification, while it is not impossible that in the long term Luxembourg could accommodate certain commodity transactions. While since the Herstatt debacle the regulations have been enforced more stringently, the fact remains that the control environment is still remarkably free in Luxembourg and that the informal character of the supervision is still very much the rule, adding to the hospitality of the financial climate.

David Curry



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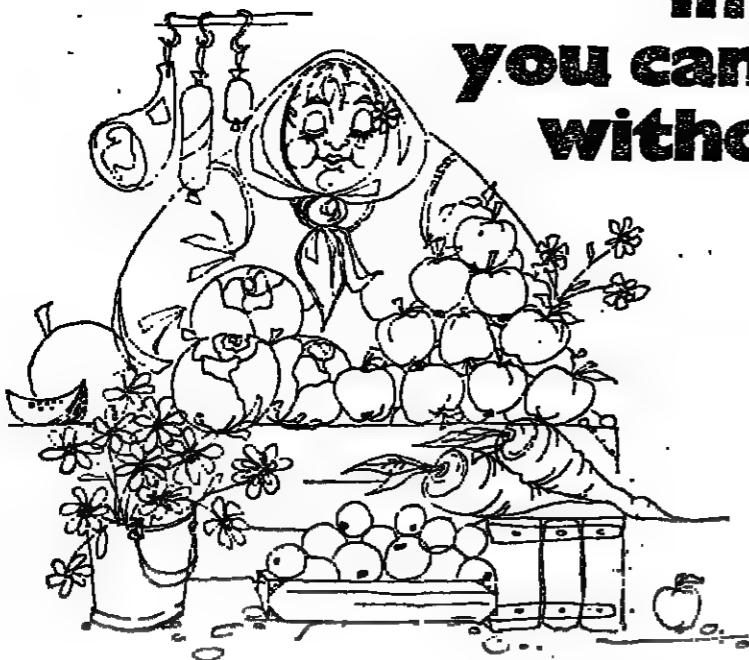
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WORLD BANKING XII

DENMARK

Urgent capital need

THE ACCOUNTS for the last year introduced to accompany a two-year collective wage settlement, a law was passed which prevented banks from widening interest rate margins (the pregnancy). The accounting difference between rates on deposits and deposits from the decreases in the market value of securities held by the banks is included in the profit and loss account was alone responsible for the increase in profits, with a recovery in bond prices in 1975 primarily responsible for the change. Most banks recorded a slight drop or no change in operating profits.

The result for Copenhagen Handelsbank, Denmark's biggest commercial bank, was typical. The result before adjustment for the change in security values and tax was down from Kr.360m. to Kr.275m., but after adjustment for security values rose from Kr.191m. in 1974 to Kr.687m. last year.

The trend is a matter of some concern to the banks, which are facing a problem of maintaining their capital ratios at the legal minimum of 8 per cent. of deposits and guarantees. The problem is even more serious for the savings banks, which cannot go to their shareholders or the share market for an extra injection of capital. The capitalisation problem has been highlighted by three factors, inflation, the effects of economic policy over the past two years and politically imposed restrictions on the earnings capacity of the banks and savings banks. Last year, as a result of a cost-dampening grant to business,

Reduced

The increase in balances came at the same time as earnings potential was reduced, and the politicians added to the injury which the banks believe was done to them by the law on interest margins by excluding the banks from a cost-dampening grant to business this spring. (The grant was a consequence of a promise last autumn not to allow an acceleration of business costs from the level prevailing last autumn. But when the wage-adjusting price index rose faster than expected the Government had to fork out the difference in a cost-dampening grant to business.)

Last year the increase in bond prices helped the banks to escape from the capitalisation dilemma, but this year a reversal of the trend in bond prices (and bonds dominate the Danish capital market) will make the problem of raising capital one of urgency, as Privathanken said in its annual report.

As Privathanken also said, it is a problem which spills over on to the rest of the business sector. The banks' repeated calls on the share market to provide new capital is becoming something of an embarrassment, absorbing a disproportionate amount of the capital which should be available to the business sector as a whole.

Bank business this year will be influenced by the economic recovery, the renewed increase in the current balance of payments deficit, and the efforts of the authorities to bring the explosive growth of the money supply under control.

A 5½ per cent. GNP growth rate is the official forecast for this year, with private consumption, rise by 4 per cent., and investment, by 9½ per cent., playing the leading roles. Exports are only expected to rise by a modest 2½ per cent. in real terms. This combination, according to the official scenario, will produce a current balance of payments deficit of Kr.8bn. compared with Kr.3bn. last year.

The chairman of the Economic Advisory Council only 4.5 per cent. last year, but (Denmark's Three Wise Men) this did not reflect the true forecast predicting a current deficit of Kr.7.5bn. this year and will help to curb the growth of next and slightly more in 1978. The rise in the current deficit of next and slightly more in 1978. The rise in the current deficit of next and slightly more in 1978. The rise in the current deficit of next and slightly more in 1978.

takes the form of financing the entire forecast. Government budget deficit by issuing Government bonds and bills.

These issues include new types of Government paper, introducing a new market in short-term bills. The bills will have maturities of one and two years, and while the effective interest rate is roughly in line with interest on 12-month bank deposits, the bills are issued below par, and the capital gain is not taxable. This should make them attractive investments for non-institutional buyers. Sales only started in early April, however, and it is too early to say how successful this innovation is.

The deficit financing operation was discounted by the private bond market in the first months of the year, with effective interest rates rising from about 13 per cent. to 15 per cent. It remains to be seen whether rates will rise still further, and whether these rates will stifle the expected upswing in housing and business investment at birth.

The high interest rate structure is essential, however, in order to protect the country's slender foreign exchange reserves position. This was underlined during the March currency crisis, when the Danish discount rate was raised from 7½ to 8½ per cent. If Danish rates do not remain substantially higher than international rates, business switches into kroner for its short-term borrowing, and this quickly puts an intolerable burden on the reserves.

Hilary Barnes
Copenhagen Correspondent

Inflation

On the other hand, a factor which may favour Denmark is its relative success in bringing down the rate of inflation. The average increase in consumer prices last year was 9.6 per cent., and the Government forecasts a drop to 8.5 per cent. this year, with the Economic Advisory Council forecasting a fall to 5.5 per cent. by 1978. (A temporary reduction in value added tax from 15 to nine and a quarter per cent. from September to February means that the official consumer price index showed an increase of only 4.5 per cent. last year, but this did not reflect the true rise in the current deficit of next and slightly more in 1978. The rise in the current deficit of next and slightly more in 1978. The rise in the current deficit of next and slightly more in 1978.)

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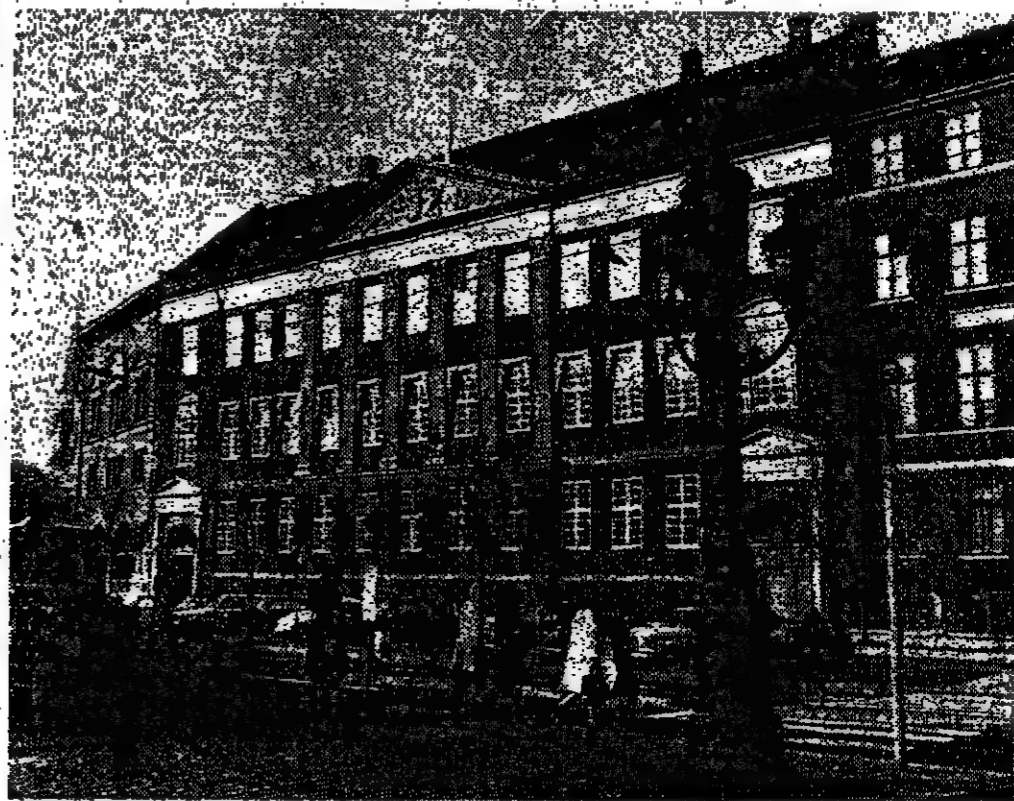
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The head office of Landmaabanken in Copenhagen.

NORWAY

Optimism prevails

THE NORWEGIAN banks benefited last year from an unprecedented easing in Bank pace of oil industry development. Credit policy was as a tightening as soon as the which helped offset the losses sustained by the larger commercial banks in their shipping credits. Bank shares performed better than any other sector on the depressed Oslo Stock Exchange, rising by 5.6 per cent. against a decline of some 10 per cent. in the general index, and the major banks continued to gird themselves for the expansion in business, both abroad and at home, which they hope Norway's rising oil income will bring with it.

From the commercial banks' point of view the most encouraging aspect of 1975 was the successive changes in official credit policy. For the first time in a decade the steady growth in credit restrictions on the banks and in the instruments used to apply them was reversed. Recognition of the change has been almost grudging among Norwegian bankers and led Mr. Knut Getz Wold, the Governor of the Bank of Norway, to remark banteringly in February this year that it had apparently been a step towards recovery from their astonishment. The bankers, however, may well be doubtful about the durability of the changes.

These were clearly intended to counter the effect on the Norwegian economy of the continuing international recession and to maintain employment which was threatened by the collapse in shipping, the cancellation of orders at the ship yards and the relatively slow pace of oil industry development. Credit policy was as a tightening as soon as the which helped offset the losses sustained by the larger commercial banks in their shipping credits. Bank shares performed better than any other sector on the depressed Oslo Stock Exchange, rising by 5.6 per cent. against a decline of some 10 per cent. in the general index, and the major banks continued to gird themselves for the expansion in business, both abroad and at home, which they hope Norway's rising oil income will bring with it.

Lifted

The primary reserve requirements for the commercial banks were reduced, and eventually lifted altogether. The rate for obligatory holdings of bearer bonds was lowered from 30 to 22 per cent., and finally with a growth in credit restrictions on the banks and in the instruments used to apply them was reversed. Recognition of the change has been almost grudging among Norwegian bankers and led Mr. Knut Getz Wold, the Governor of the Bank of Norway, to remark banteringly in February this year that it had apparently been a step towards recovery from their astonishment. The bankers, however, may well be doubtful about the durability of the changes.

Mr. Wold reinforced the banks' doubts about the durability of the credit easing when rowing was sufficient last year, the Government to the international money market after a lapse of ten years. The Norwegian monetary balance deficit amounted to Kr.12.3bn. or 8 per cent. of GNP last year and is expected to reach over Kr.15bn. this year. At the same time foreign reserves, which were sufficient last year, the Government to the international money market after a lapse of ten years. The Norwegian monetary balance deficit amounted to Kr.12.3bn. or 8 per cent. of GNP last year and is expected to reach over Kr.15bn. this year. At the same time foreign reserves, which were sufficient last year, the Government to the international money market after a lapse of ten years.

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WORLD BANKING XIII

SWEDEN

Operating on a looser rein

Banking has just priority has had to be given to expensive year. The result has been a Riksbank encouragement credit policy which has aimed to meet the financing needs of industry by foreign borrowing and a selective easing of the domestic credit market to promote industrial investment and, as recovery was delayed on Sweden's foreign markets, to finance stockpiling.

Technical

The Riksbank policy has been effected by a number of technical changes, the most important of which was probably the decision on April 17 last year to increase long-term lending rates by 1 per centage point — to 8.25 per cent. (8.75 per cent. in 1973) the first time since World War II that the long-term rate has been changed without an increase in the official discount rate. The widening of the gap between long-term and short-term interest rates was

intended to enlarge the Swedish capital market and help satisfy industry's needs of long-term finance.

The commercial banks undertook to play their part by agreeing with the Riksbank to raise investments in industrial bonds by Kr.1bn. (£120m.), either by increasing their own investments or by selling bonds to new investors.

The banks were operating at the time under a credit ceiling limiting advances to other purposes than construction until June 30, 1975, to a maximum of 20 per cent. of the level prevailing at the end of 1973. They were recommended to give priority to industry, and, to encourage this trend and to stimulate borrowing abroad, the Riksbank announced that the part of new advances refinanced abroad would not be counted when calculating the extent to which the banks had fulfilled this recommendation. In May the credit ceiling was raised to permit an increase by the end of 1975 of up to 26 per cent. of the level prevailing at the end of 1973. Finally in August the credit ceiling was abolished.

This further easing in credit policy was designed to provide more credit for industry and in particular to assist production for stock. It was accompanied by a lowering of the discount rate from 7 to 6 per cent. (with the fixed rates on long-term loans and bond issues remaining unchanged) and by a rise of 2 percentage points in the liquidity requirements of the commercial banks.

Freely

The liquidity requirements were further strengthened at the end of October at the same time as cash requirements were reduced from 5 to 2 per cent. a move intended to make it possible for the banks to allocate their liquid assets more freely but without increasing their rate of lending. The discount rate was further

lowered to 5½ per cent. at the end of January without any change being effected in the long-term interest rate.

The Riksbank claims success for its policy in changing industry's liquid assets from around zero in September, 1974, to just over 20 per cent. a year later. The commercial banks' advances (excluding construction credits) reached Kr.4bn. in the first half of 1975 compared with Kr.2.2bn. during the first half of 1974, but accelerated to Kr.4.5bn. during the second half, reaching a new high towards the end of the year. In 1974 the Riksbank Governor Wickman has since admonished the banks to restrain their lending, in particular as more credits have been going to borrowers outside the industry, but he has so far taken no new restrictive measures.

A significant feature of the past year has been the increase in the banks' foreign business both in managing loans and in refinancing their own lending. During 1974 the commercial banks refinanced abroad only 7.2 per cent. of their advances outside the construction sector; in 1975 refinancing abroad covered 24 per cent. or just over Kr.2bn. of bank lending.

Sweden's long-term borrowing soared from Kr.3.5bn. in 1974 to Kr.10.4bn. last year, while short-term borrowing rose by Kr.2.1bn. compared with Kr.400m. in the previous year. As a result of this capital inflow the gold and currency reserves rose by Kr.5.2bn. over the year.

The growth in bank balances held by the public reached its lowest level at the beginning of 1975 and recovered steadily throughout the year. The increase in deposits was 10.5 per cent. against 7.9 per cent. in 1974 or in money terms an increase of Kr.9.8bn. (£1.17bn.) compared with Kr.8.6bn. during the previous year. Total net lending by the commercial banks amounted to Kr.8.5bn. against Kr.7.1bn. in 1974.

The Riksbank's alterations in control measures over the past

year have brought to the fore the question of interest drift, which is in turn connected with the banks' current claim that their profitability is not keeping pace with inflation and that they need wider interest margins. When the Riksbank altered the relationship between the long-term and short-term rates in April last year, it also sought to counter the trend towards interest drift within the banks (the bank borrowing and lending rates have traditionally been tied to the official discount rate).

In 1974 the Riksbank recommended that the commercial banks should be allowed to adjust their lending rates and that the average rate rose by a maximum of 0.2 percentage units from the end of March 1974. Later the level was raised for the savings banks to 0.3 percentage units and again last autumn to 0.35 percentage units. These recommendations were valid until March this year, but a survey conducted at the end of September showed that the lending rates of both the commercial and savings banks had exceeded the prescribed levels.

Average

It has now been agreed that until September this year the commercial banks will attempt to keep their average interest drift from March, 1974, within the 0.2 per cent. limit with the exception of the State-owned PKBank, where the limit has been put at 0.3 per cent. The savings banks can go up to 0.4 per cent. At the same time the Riksbank has agreed to discuss the banks' long-term earnings problems.

These were highlighted in the 1975 reports of Skandinaviska Enskilda, Svenska Handelsbanken and PKBank. Enskilda, for instance, which showed a seemingly handsome increase of 18.3 per cent. in pre-tax earnings, argued that it had suffered an "inflation loss" or a reduction in real capital resources

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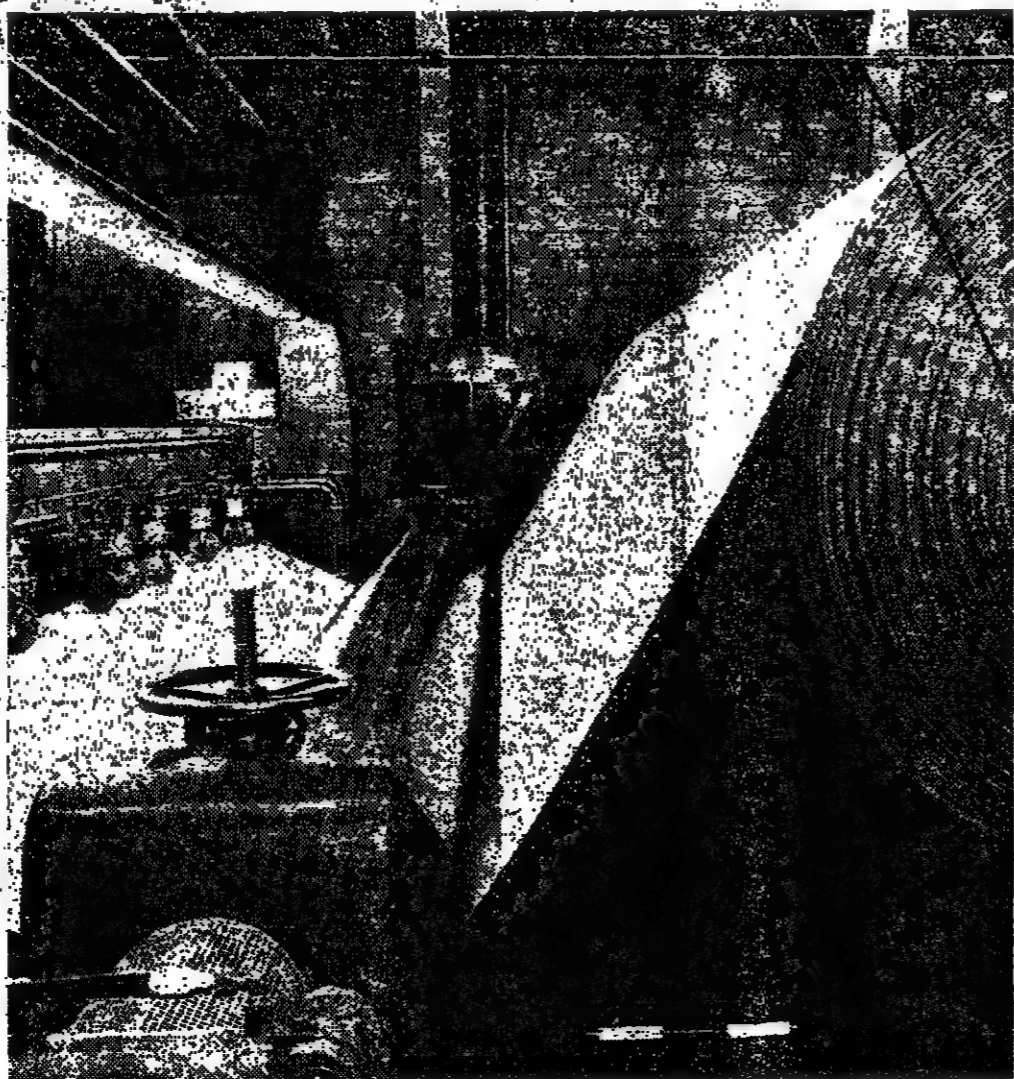
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The Swedish pulp and paper industry is the keystone of the country's economy. The photograph shows a new sack paper machine at Korsnas Marna.

Norway

CONTINUED FROM PREVIOUS PAGE

regards with equanimity a financing requirement of some Kr.20bn. gross this year.

The Government plans to raise State loans abroad up to Kr.4bn. this year after using most of the Kr.5bn. it was authorised by Parliament to raise last April. State guarantees for private borrowing will also rise from Kr.1bn. to Kr.1.5bn.

The Norwegian Banking Association estimates that the commercial banks bought currency for Kr.1.5bn. from the Bank of Norway last year to finance Norwegian companies' foreign payments. Deposits from the public recovered substantially from the middle of the year, giving an annual growth of Kr.4.5bn. compared with Kr.2.7bn. in 1974.

On the whole, despite the losses on shipping loans, the

banks improved earnings in 1975 and substantially increased up 25 per cent. and their balance sheet totals. Farmers' Bank 10 per cent.

Although costs rose from 4.55 to 4.86 per cent. of the commercial banks' balance sheet totals, the Banking Association estimates that there was an increase in interest margins during the year which helped produce an improvement in the banks' profits before depreciation and tax from 1.34 to 1.4 per cent. of total capital. Liquidity was generally good at the end of the year.

The major banks continue to open up abroad, principally in Luxembourg. In February Bergen Bank (a merger of Bergens Privatbank and Bergen Kreditbank effected last year) opened the fourth Norwegian-owned bank in the Grand Duchy, taking 65 per cent. of the Frs.250m. share capital,

with Forretningsbanken taking 25 per cent. and the other banks 10 per cent.

Its wholly owned subsidiary in Luxembourg is one reason why Den Norske Creditbank—Norway's biggest bank whose balance sheet passed the Kr.10bn. mark last year—is increasing its share capital this year for the second year running. Three of the larger banks alone are increasing their capital by Kr.150m., which compares with a total share capital for the commercial banks of around Kr.1.4bn. at the end of 1975, and more banks are in the queue for new issues this year. Optimism prevails despite the continuing uncertainty about the Labour Government's plans for "democratisation" of the banks.

William Dullforce

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Consolidated Assets	185,667,625
Consolidated stock capital and reserves	21,919,795
Consolidated Income	25,832,869
Net Profits	1,690,569

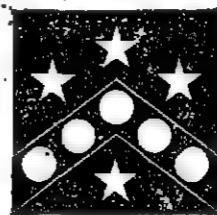
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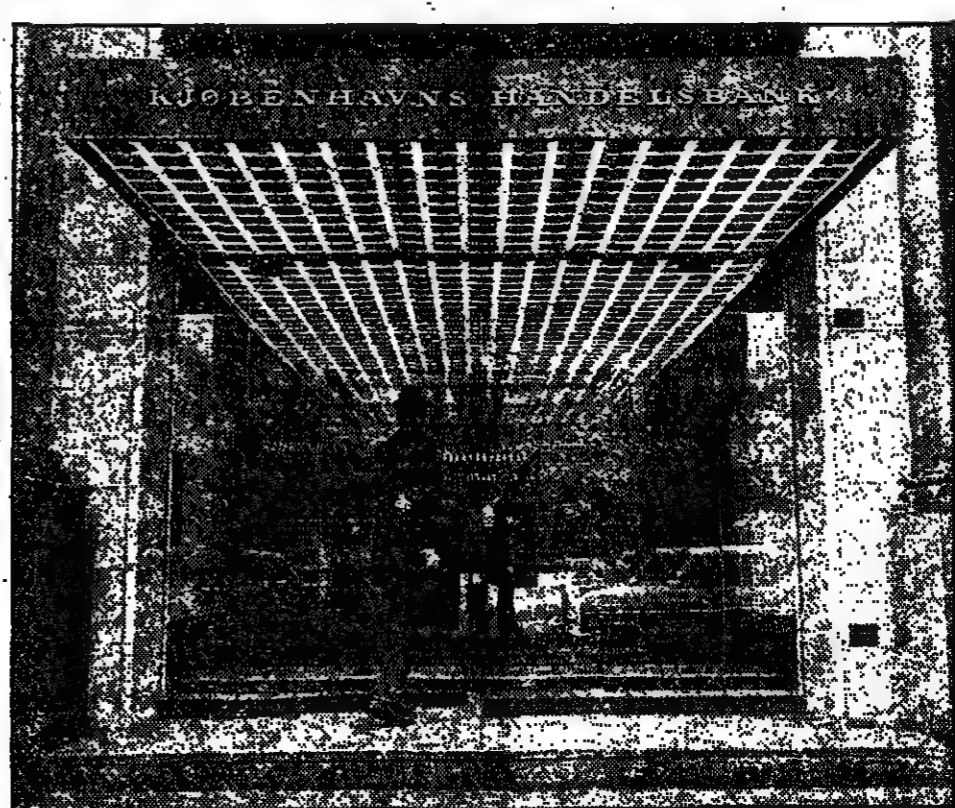
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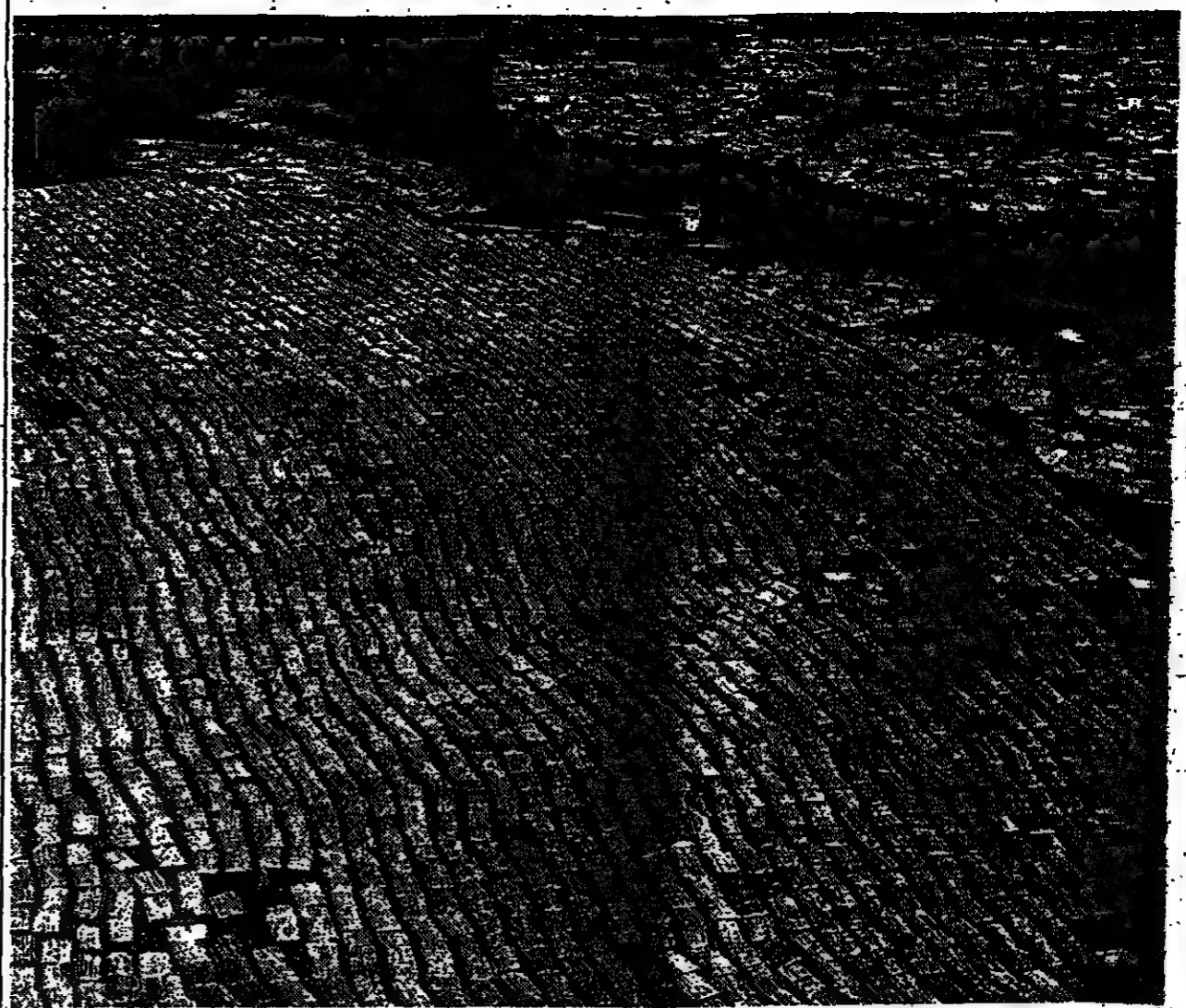
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WORLD BANKING XIV



A massive log raft on the move in Finland. The country's forest industry has had a hard time reaping export earnings have fallen off.

FINLAND

Difficult times

THE FINNISH economy is still going through very troubled times. It really began to get into difficulties at the end of 1974, about a year later than most West European industrialised countries. The market for forest industry products (wood, pulp, paper and paperboard), the main source of Finland's export earnings, slumped with surprising suddenness in 1975. This disaster was offset somewhat by the stabilising trend of world raw material prices. But internal cost factors—above all, inordinate wage increases—kept the inflation rate up at 18 per cent., well above the rate in the main competitor countries.

By the turn of the year, Finland had set itself a number of new records. The deficit on current account was Fmk2.5bn. (over \$1bn. at the December 1975 rate of exchange). The net foreign debt had swollen to Fmk3.0bn. (\$2.5bn.), one-fifth of the GNP for 1975. Unemployment was reaching 4 per cent. at an annual rate. Yet the five-party Centre-Left coalition Cabinet under Prime Minister Martti Miettunen (Centre Party), ordered into being in November 1975 by President Urho Kekkonen, earned the distinction of being even more indecisive than its predecessor.

Better

Externally, the situation seems to have changed for the better, though for Finland the revival of export demand in Europe is agonisingly slow, not least because the large build-up of inventories of forest industry products in the main buying countries is taking time to liquidate. The real problems are now internal. Finland has more or less wasted a year that should have been spent on making and mending tasks at home. The sizeable cash surpluses accumulated by the Treasury in the 1970s were squandered in 1975, and from the beginning of 1976 the country was back to deficit financing to balance the budget. The tax reliefs promised by the last Government have been lost in a series of new taxes and charges, most of them supposedly temporary. But still more new revenue must be raised for additional supplementary budgets this year and the main budget for 1977.

Certain unions, many of them small but representing key sectors, have compounded the confusion by calling a series of strikes, both legal and illegal, although they accepted the incomes and prices policy agreement at central employer-union level in January. The country lost 230,000 working days in January-February alone, compared with 280,000 in the whole of 1975. The reasons for the strikes were sometimes just power play between the Communist and Social Democratic wings for control of individual unions. Sometimes they were called to maintain the differentials. In either case, they were a luxury that the country could ill afford.

This competition between the Communist and Social Democrats is one of the main reasons for the lack of firm action by the Government. Both parties are in the Miettunen Cabinet, the Communists as very

BANK DEPOSITS AND LENDING—1975

Bank group	Change % on		Change % on	
	Deposits	1974	Loans	1974
Commercial banks	13.2	19.1	17.8	12.0
Savings banks	10.4	17.9	9.1	17.8
Co-operative banks	8.1	20.0	7.2	20.6
Postipankki	6.3	20.0	5.5	19.0
Total	40.0	20.3	40.1	15.8

reluctant partners. Time and again, the Communists have forced postponement of decisions of essential importance to the economy. In fact, it seems doubtful whether the Communists will be in the Cabinet after mid-May when certain decisions must finally be taken, notably on the plan to increase the turnover tax by 2 per cent.

The decision should have been taken at the end of March in order to balance the so-called Unemployment Supplementary Budget, but the Communists refused to accept the proposed increase in turnover tax to be applied later this year. Equally interesting and typical is the Communist Ministers' reservation attached to the stabilisation plan that Finance Minister Paul Paavola (Social Democrat) produced as a sort of appendix to the supplementary budget.

This stabilisation plan goes some way, at last, towards recognising the seriousness of the economic situation and taking corrective action. It lists 18 sectors in which public expenditure is to be cut or else postponed for some years. But the total saving to be effected immediately is only Fmk3.50m.

The plan is based on a medium-term forecast of the development of the Finnish economy up to 1981. It foresees an annual average growth rate of 4 per cent. Since foreign borrowing must be contained, the growth of consumption must be kept down to 2.5 per cent. a year. Investment is to be channelled into projects that directly sustain exports and employment. New investment in the energy sector is to be stopped entirely. Changes in business taxation—for instance, in depreciation allowances and inventory reserves—are to be examined as a means of steering investments. In addition to existing measures to discourage imports, the Government will consider the possibility of introducing compulsory prior notification of import intentions.

The even stricter screening of credit applications—the Bank

of Finland has already stringent guidelines adds to the problem deposit banks, par commercial banks the main source industrial investment Money is extremely Finland, and will a for the foreseeable banks are trying their borrowing fr al Bank. All app foreign loans will t fully screened.

The State is ag the domestic mon a major borrower. ing a bigger tax way or another. only remaining au dional finance for re- requiring bank cre is likely to wither, taining a very growth rate for dinary times.

Unacceptable the the Communists, Fi ter Paavola gives i the current acco priority over employment. A def 5bn. is the target f Fmk3.5bn. for 1981 major problem is in last and more reali by the Ministry Economic Division rate of 13 per cent. But the earnings increase by 13 per happens more in the due the situation is de Finally, there i ducing threat of de the Finnish tow of the year. But foreign debt and ti of debt servicing, n per cent. of curri income, would mak tremely expensive

Lance I Helsinki G

AUSTRIA

Awaiting an upturn

THOUGH LAST year, with a 2.5 per cent. decline of the GNP, was the most disappointing since the immediate post-war period for the Austrian economy, the overall performance was still one of the best among the OECD countries. While it is true that the rate of inflation at 8.4 per cent. was down on the 9.5 per cent. recorded in 1974, and compared favourably with the 13.8 per cent. registered for the European OECD countries, they were a luxury that the country could ill afford.

Since the autumn however, the recovery has gained speed. The recession in Austria was fourth quarter of last year was 2 per cent. up the neighbouring countries, various quarter and agriculture and fores 4 per cent. up on the ter in 1974. Never Institute for Econom points out in its la more than expected. Austrians, 20,000 more than a tion of the increase's year earlier, were employed. Added Tax from 16 The accent is, of course, on the cent. from January, adjective "Austrian," since the seasonal factors also number of foreign workers dur- to the higher-than-expt ing the same period fell by of exports to Easten 32,000 or 15 per cent. to other On the basis of th words, foreigners were the first February figure, it i to be fired in branches hit by that the first quarter will not have produc the recession.

CONTINUED ON NEXT PAGE

SWITZERLAND

Banks do well in a bad year

AS FAR as their financial results are concerned, 1975 was a prime year for Swiss banks. Total assets of the Big Five banks alone, up by nearly 17 per cent. on the previous year, totalled Sw.Frs.147bn. and overtook the country's Gross National Product value of Sw.Frs.144.6bn. Profits showed a marked increase for most banks too. In the case of the three biggest—Union Bank of Switzerland, Swiss Credit Bank and Swiss Bank Corporation—the net profit figure rose by between 11 and 14 per cent.

Business grew particularly as a result of the sharp rise in the influx of medium and long-term money, in the form of deposits and savings, and an even more rapid growth in the holdings of bills and money market paper, though in fact the balance sheet positions of all the major banks showed an increase of one kind or another. In the profit and loss accounts, the drop in income from foreign exchange and precious metals trading was more than offset by the massive rise in profits from securities and the less dramatic but still substantial improvements in those from commission and letters of credit.

Alongside the upswing in domestic business, foreign engagements grew very considerably. At the end of 1975, assets abroad of the Swiss banking system totalled Sw.Frs.72.8bn. (December 31, 1974: Sw.Frs.60.5bn.), to which can be added fiduciary positions equal to Sw.Frs.52.7bn. (46.1bn.). After deduction of corresponding liabilities abroad, a net

Attempts

There have also been successful attempts made to keep banks from getting too big for their boots. The catch-phrase of the past year has been "re-dimensionalising," which means in the parlance of its users limiting or cutting back the volume of operations to a manageable size. During 1975, moves of the National Bank directed at this end and the related goal of improved control mechanisms

BANK ASSETS
(Sw.Frs.bn.—December 31 last)

	Big Five	28 cantonal	39 other*
1971	114.3	52.8	19.8
1972	121.2	57.8	22.0
1973	121.1	61.7	23.9
1974	125.8	67.1	25.3
1975	147.0	74.6	27.1

* Reporting regional and savings banks.

Austria

CONTINUED FROM PREVIOUS PAGE

growth, compared with the previous three-month period. On the whole, GNP, however, will continue to rise from quarter to quarter, and the forecast for 1976 has just undergone an upward revision from 1.5 per cent. to 2.5 per cent. as compared with last year.

Dramatic

The sudden downturn in 1975 had substantial, in some respects even dramatic repercussions on fiscal and monetary policies. To start with, the abrupt change from a boom cycle with a 4.2 per cent. growth rate in 1974 and an only slightly lower growth forecast for 1975 to a sudden decline in GNP plunged the Treasury into a critical situation. The voted budget deficit of Sch.16.3bn. jumped by the end of the year to an all-time peak of Sch.39.5bn. The combination of massive deficit spending policies with lower than expected revenues forced the Government to resort to heavy foreign borrowing, thus increasing the national debt within a year from Sch.81.4bn. to about Sch.100bn.

Several factors combined to produce an embarrassingly large liquidity in the place of the previous stabilisation package deals, involving a credit squeeze. The discount rate was reduced in two stages (April 1975 and January 1976) by 1.5 per cent. to 5 per cent., the ceiling on the growth of commercial credits to domestic non-banks (1 per cent. per month) has been to all practical purposes lifted, and since last October a higher rate of new advances has no longer been subject to central bank penalties.

Clearly the influx of foreign loans, primarily federal borrowing to the tune of Sch.16.5bn. five times as much as in the previous year, was the main influence engendering a veritable liquidity tide. In all, the gold and foreign exchange reserves rose by one-third to Sch.61.5bn. by the end of 1975. The combined balance sheet of the credit institutes expanded by 21 per cent. last year compared with a growth of 15 per cent. in 1974. The liquidity position was such that since mid-1975 the banks have practically ceased to resort to central bank refinancing facilities.

Two further factors contributing to high liquidity have been the continued increase in private savings and the relatively weak demand for commercial credits,

Paul Lendvai
Vienna Correspondent

included the negative interest rate of 10 per cent. per quarter on new foreign deposits, the reduction of forward sales of Swiss francs to foreigners and the daily matching of banks' foreign exchange liability positions with corresponding assets. By a gentlemen's agreement with banks and multi-national companies all spot and forward foreign exchange transactions of \$5m. and above have to be reported. All these measures are over and above short-term regulatory moves in such fields as minimum balance creation and capital market issue ceilings.

While the Swiss bankers see the point in many of the policy decisions affecting their operations and while relations between them and the National Bank remain fundamentally cordial, there is a growing fear of eventual erosion of what have hitherto been considered basic rights. A particular upset was caused last autumn when eminent spokesmen of the National Bank and the Federal Council started to wonder out loud whether numbered accounts were really necessary. Bankers, who for

years had been arguing that is already a fact in some annual report, restrictive equity accounts except for guaranteeing greater in-bank security, reacted as though Bahnhofstrasse had turned into Sidney Street. Talk of this kind, which at the time of the 1975 Bankers' Day in Lugano had a background of rumours about a foreign exchange tax and the creation of a central "forex" market, was considered the thin end of the wedge, to say the least.

BIG THREE RESULTS
(Sw.Frs.m.)

	Swiss Bank Corporation		Swiss Credit Bank		Union Bank of Switzerland	
	1975	1974	1975	1974	1975	1974
Total assets	49,838	41,044	36,798	22,134	47,394	40,713
Net profits	199.7	177.9	173.1	156.1	208.9	183.2
Income	3,289	2,235	2,424	2,329	3,133	3,013
of which:						
Interest	2,382	2,531	1,691	1,695	2,322	2,295
Bills and money market paper	161.3	127.7	109.2	96.6	159.1	92.6
Commission	296.8	232.3	314.6	267.8	420.3	365.6
Foreign exchange and precious metals	196.2	228.9	144.8	158.3	150.5	166.5
Securities	120.9	53.6	111.7	54.1	125.3	54.8
Participations	28.0	18.9	20.3	28.5	19.3	16.2
Other sources	31.1	29.3	25.2	26.7	26.2	21.9

In fact, "re-dimensionalising" in Switzerland said in its last annual report, restrictive equity ratio regulations and tighter reciprocity rules have led to a very marked slowdown in the development of foreign banks' activities. Association president Dr. Eric Gasser claimed in this connection that intervention by officialdom hindered a proper watchdog operations, while the National Bank is said to have pressed as operating costs rise. National Bank could once more find themselves in a position of had debts than with the possibility of an economic upward pressure on the Swiss franc has already led to large-scale National Bank intervention on the foreign exchange market aimed at keeping the dirty-floating currency at a tolerable level, but these have been largely compensated for by compulsory conversions into dollars of amounts created in capital exports.

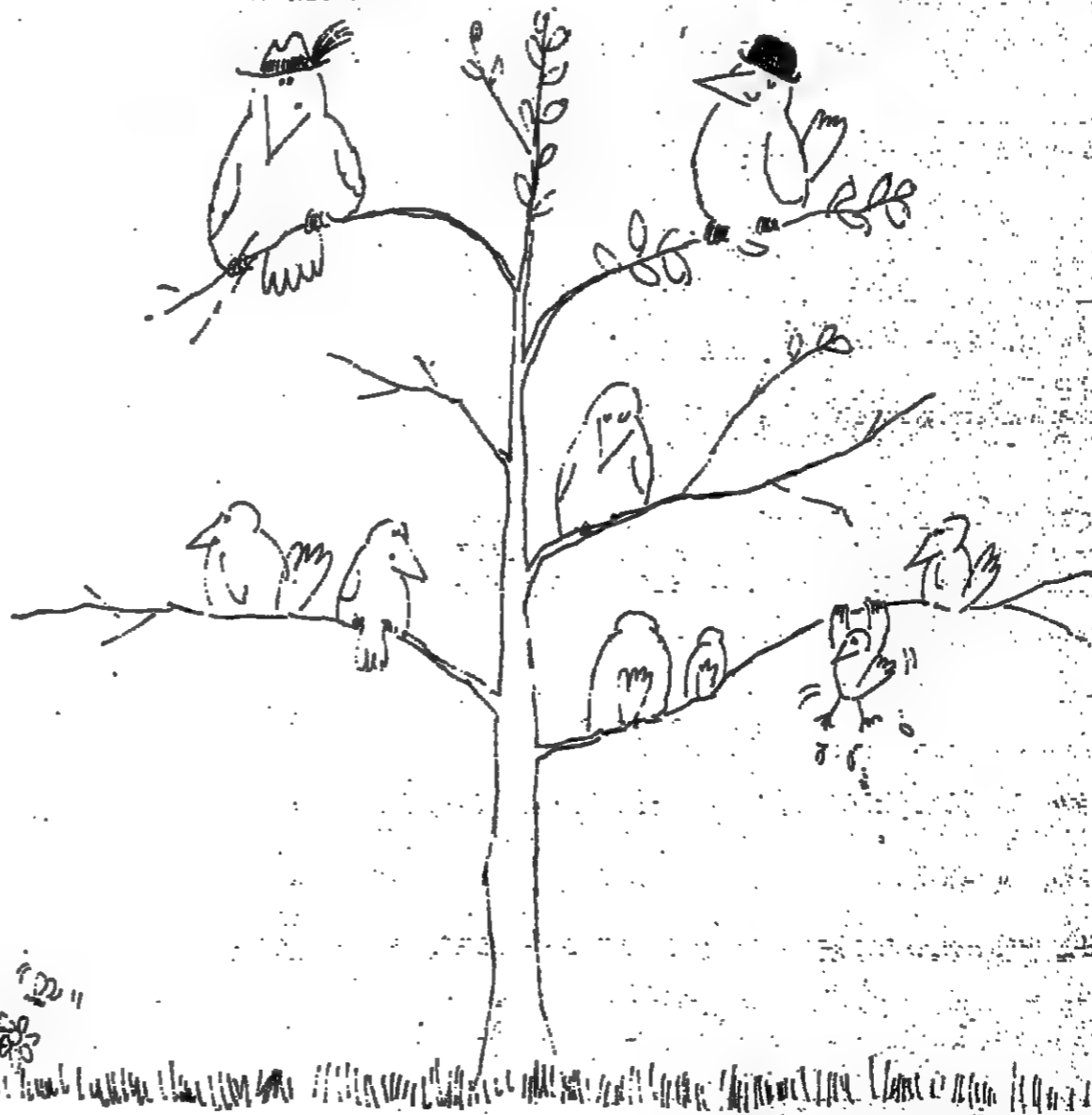
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	Total assets 1965	Total assets 1974	Total assets 1975
	1,000 mill. ASch.	1,000 mill. ASch.	1,000 mill. ASch.
Austrian banks			
Creditanstalt-Bankverein	21.2	71.2	85.7
Girozentrale Vienna	13.2	52.9	73.2
Österr. Länderbank	13.9	42.6	56.4
Genossensch. Zentralbank	5.9	24.7	35.7
BAWAG	5.5	20.4	24.5



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WORLD BANKING XVI

CHARTERED BANKS' ASSETS
(\$Can.m.)

	Notes and deposits with Bank of Canada	Govt. and other securities short term	Canada treasury bills	Govt. Government of Canada securities	Other securities	MHA mortgages	All items excluding drop off and short term	Jan. 31, 1976	Jan. 31, 1975
							TOTAL		TOTAL
Bank of Montreal	761	289	653	968	696	634	12,023	18,677	18,441
Bank of Nova Scotia	450	212	413	445	612	482	9,358	15,921	14,463
Toronto-Dominion Bk.	530	177	458	582	492	409	7,837	14,358	13,185
Provincial Bk. of Can.	91	102	115	128	124	382	1,916	3,265	2,794
Can. Imp. Bk. Comm.	863	268	792	938	954	1,200	12,505	23,192	20,180
Royal Bk. of Canada	928	357	832	1,030	978	864	14,758	25,791	22,567
Bk. Canadian National	195	168	224	218	345	405	3,038	5,224	4,427
Mercantile Bk. of Can.	51	6	53	19	173	11	1,037	1,432	738
Bk. of Brit. Columbia	21	17	22	9	27	26	486	649	525
Unity Bk. of Canada	4	—	1	—	21	4	124	160	143
TOTAL 1976	3,895	1,476	3,564	4,332	4,236	4,220	53,232	109,193	—
TOTAL 1975	3,270	1,304	3,495	4,261	4,269	3,335	53,700	—	97,391
% change in January, 1976, on year	+15.6	+13.0	+2.0	+1.4	+0.8	+26.5	+12.7	—	—

Prepared by the Canadian Bankers Association.

CANADA

Recovery under way

THE CANADIAN economy is now clearly in the early phases of recovery. Business activity is expanding, capital investment is rising, the inflation rate is easing and real output is forecast to increase by close to 5 per cent. this year after almost no increase in 1975.

These are the conclusions of the Conference Board in Canada, a non-profit-making organisation backed by business and industry to advise the Government about future trends, and of Statistics Canada, the government agency that records the country's progress and tabulates the information provided on a monthly basis by all levels of business.

Revised economic statistics for 1975 prepared by the Conference Board indicate quite clearly that the recession in economic activity that started early in 1974 came to an end in early 1975 and that since last spring or early summer, the Canadian economy has been in a period of recovery.

It emphasised, however, that output growth this year will not be sufficient to reduce the significant amount of excess capacity that now exists in the Canadian economy. Under such conditions, unemployment rates are expected to show a slight increase this year to an average of 7.1 per cent. of the workforce, compared with 7 per cent. in 1975.

One significant revision in the outlook for 1976 is that prices will rise at a slower rate as a result of favourable developments in agriculture prices during the past several months and a favourable outlook for these prices through the summer months of 1976. As a result, the consumer price index is expected to rise by 9 per cent. this year, down from the previous forecast of 10.5 per cent. made in December.

Resource

Last year's rise of nearly 17 per cent. in business investment resulted largely from a 13 per cent. increase in the price of capital goods and increasing activity on large projects. The initiation of a number of sizeable resource oriented projects late in 1975 is expected to offset significantly the impact of declining investment elsewhere and will lead to moderate increases in total business investment in both real and value terms.

The statistics show, however, that the recovery from recession and the trend toward a slower inflation rate began before the Government introduced a prices and income policy last October. When they were introduced, Prime Minister Pierre Trudeau said they would last for three years. They were designed to bring a halt to galloping double digit inflation and reduce the rate by the end of the programme to about 4 per cent.

Since last October the Government has been telling Canadians about the unpleasant things they must do to fight inflation. But in the Bank of Canada's annual report issued a few weeks ago, Governor Gerald Boney told the federal Government, and indirectly all the provincial governments, the equally unpleasant things they must do in the same case.

The Bank appears to have decided what it ought to do and to be showing a rather stern adherence to doing it. Part of it consists of not bailing out governments by excessive increases in the money supply. The nationalisation of the Portuguese-owned banks and financial institutions brought with it Canadian dollar down. The high interest rates have been attracting a large inflow of capital from the United States and other countries and the computation at the centre of a strategy which was to develop the Portuguese economy out of its

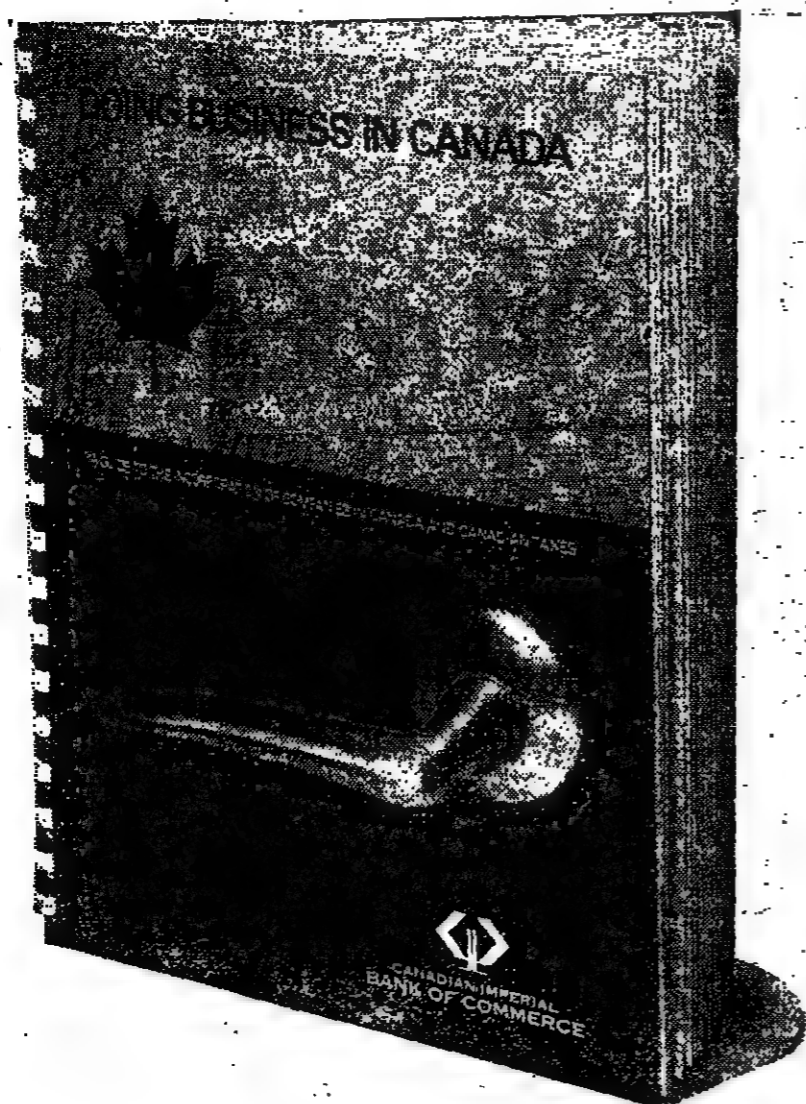
"GREATER WEALTH for all," relative backwardness and at the same time ensure that this development led to socialism. "With their deposits the banks will develop works of great social interest. They will help construct that which the country does not have but which all need," said the official propagandist.

Unfortunately, the one thing the banks swiftly found, they did not have were deposits, as depositors, fearful at the time that the next step along the road to socialism would be the freeing of assets above a certain level, rushed to take their money out. Demand deposits fell by the end of last year were still less than they had been three years previously at Esc. 144bn., compared with 144.5bn. at the end of 1972. Short-term deposits showed a more dramatic decline of nervousness, the banking system at having fallen to Esc. 2.4bn. at the end of October last year re-discounting (the latest currently available gathered and published

figure), compared to at the same point in Esc. 4.2bn. on the say 1973, the last year of wing dictatorship. The money appeared up in mattresses a number of notes in a according to the Portugal, tripled during months after the coup 25, 1974. Getting it became a major prior all intents and purposed over the running of a bid system in a bid for so long after it was non.

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WORLD BANKING XVII

SPAIN

Resistance to reforms

ST 15 years or so the inter-linked smaller banks, fashionable among the necessity of maintaining business confidence during a time of political uncertainty. It is unlikely that the problems now affecting some of the smaller banks which may have been overreached themselves in the middle-rank banks having to keep a wary eye on some of the more "wayward" members of its over 110-strong flock.

With every chance that Spain will come out of the current world recession at least 12 months after other countries in Western Europe—the time factor being heavily dependent on the political situation—the banks find themselves in relatively uncharted waters.

Squeezed

On the one hand they are being squeezed by mounting Government demands for funds to aid the public sector and on the other by the necessity of maintaining an adequate cash flow to those companies within their particular orbit. For good measure they are being persistently pressed by the Government and indeed by their own top level management to channel more cash towards the stock market, which is suffering badly from nerves this year and could slide even more sharply if semi-official support were not available to assist in manipulating prices.

Neither can they be very cheerful at the sight of visiting foreign bankers siding up the Spanish scene, in looking at the large number of multinationals that are operating, the amount of foreign loans that are going to be required, and concluding that "reciprocity" and possible EEC membership is inevitably going to open the doors to them before long. Indeed the Spanish regime has been considering allowing one American bank to open but ran into fierce opposition and may have temporarily shelved the issue.

The advent of half-a-dozen foreign banks, although they would not be competing for deposits from the general public, could prove a massive stimulus to the resident banking community, uncomfortably though it would be initially. Yet

those foreign banks whose only doubt remains the nation's political stability need not start getting too excited, as there will first have to be some rather dramatic Government changes. Even then the battle will not be entirely won.

Such political changes would probably also signify more vocal demands for greater equality from the savings banks, whose deposits are over 70 per cent controlled by the regime. Because the savings banks produce a large proportion of the cheap credit that is channelled to industry, especially the State-controlled companies, their interest rates to investors are also very low and there are regular complaints that margins are squeezed. Additionally the savings banks invariably have strong regional bases—the largest are in Catalonia—and there is resentment that funds are creamed off from the region and especially from the rural areas, in order to finance industry elsewhere.

The arguments against such a system are both political and economic. The so-called privileged circuits, whereby the savings banks are obliged to pick up the bonds issued by certain approved companies, can and certainly do disguise inefficiency, and at the same time do not stimulate management to earn the return on capital it would have to if obliged to borrow at more competitive rates. The extent to which some companies, especially the State-

run ones, are now having to go into the Euro-dollar market is providing a salutary shock and with Spain's balance of payments deficit last year over \$3.4bn., it is a process that is continuing.

Inroads

It was partly the small but significant inroads that the savings banks have been making in the contest with the commercial banks for deposits that led to a revision in legislation and freedom for the commercial banks to open new branches. Last year the commercial banks opened nearly 2,000 new branches, five times as many as in any previous year, and it seems for some a rather costly error. How many of these branches will subsequently close is open to speculation but some financial sources suggest that well over half will prove totally unprofitable and that they will not attract the deposits that have hitherto gone to the savings banks.

In other sectors, however, some of the larger banks have made useful strides, especially in the development of their corporate departments and in the management of portfolios. Their economic reporting, although bullish, has improved notably and there are other signs that without too many problems at least three of the top seven banks could adapt quickly to a more competitive system. At the

rate some have been opening offices abroad it would assume that they understand foreign pressure on the Government to offer the same facilities in Madrid.

It would be unwise to assume that any reform measures are going to be forthcoming in the short term, even though the present Minister of Finance, Senor Villar Mir, is talking boldly of a serious Government-led attack on fiscal fraud. His standing in the banking world, whether justified or not, is scarcely an attribute and the difficulty he found in replacing his two deputy Ministers is indicative of the problems he faces even with the limited programme he has set himself.

The danger, both for the financial community and the well-being of the country—is that change will come one day at such a pace that it will be difficult to control. Obviously it will closely relate to the progress in introducing democracy and it is to be hoped that those frightened senior bankers can see the economic and financial benefits that a more open form of government can bring to Spain and that they are not tempted to retreat too precipitately into the bunker. But as some of them point out, "We have not done too badly over the past quarter of a century. Why change?"

Roger Matthews
Madrid Correspondent

Portugal

CONTINUED FROM PREVIOUS PAGE

National Statistical Institute. These show that re-discounting operations grew between 1973 and the beginning of March this year from Esc.8.8bn. to Esc.10.0bn.

Much of this money has been needed simply to enable the banks to go ahead with their prime function at the present time—easing the cash flow problems which have afflicted the country's businesses,

whether nationalised or privately-owned. A measure of the task this entails was given in a study carried out by the Bank of Portugal, which suggested that no less than 40 per cent of the State sector had declined to a point at which commercial recovery had become impossible.

With unemployment already around the 20 per cent mark and threatening to continue rising, the banks clearly will not be allowed by their political masters to pull out the plug on the companies they support and in many cases own, although some steps have been taken to lighten the load by making it permissible for companies unable to sell their products to go on to short-time working.

To offset this the Bank of Portugal has adopted a long-term strategy which it hopes will restore confidence among the public, while at the same time allowing it to streamline what had become a rather cumbersome, and in some ways antiquated, structure. As an initial step, the bank is closing down the private foreign exchange dealers who escaped the nationalisation net last year. The Bank of Portugal is determined to bring foreign exchange operations under its direct control and to all intents and purposes has already achieved this as far as the State-owned banks are concerned.

As part of the strategy of restoring confidence, notably among overseas workers whose remittances played such a large part in keeping the balance of payments in surplus until 1974, the Bank of Portugal has created a special deposits system under which emigrants can keep their money in Lisbon in the currency of their choice, with the right at the end of each six-month period to opt for either changing it into escudos or re-depositing it for a further six months.

Cautiously

The central bank is adopting a cautiously optimistic tone at present concerning the effectiveness of its measures, and there are strong indications that the remittances have started to flow again although they are still a long way short of the torrent that lasted until 1973.

Of course, the bank is only too aware of the dangers that restoring confidence entails at a time when inflation has hit an annual rate of around 50 per cent. This was the rate the bank was budgeting for as a mid-summer likelihood, and it is now considered probable that it will be well above the present figure within the next three months.

Other steps in the pipeline are a plan to cut down the number of banks, probably through enforced mergers, in order to eliminate wasteful competition. Apart from the mergers, the banks will be given

Excesses

Like all other sectors of Portuguese society, the banks have been unable to avoid being affected by the excesses of the past two years. The greatest need in the near future is likely to be for skilled personnel, many of whom have left the country for Brazil because of the political climate. As politics, or at least the kind of politics which dominated the scene until only recently, ceases to exercise its all-pervading grip on Portuguese life, so, too, the banks may find they have the time and the resources for the recuperation they so badly need if they are to play their part in the years of economic reconstruction which lie ahead.

Paul Ellman
Lisbon Correspondent

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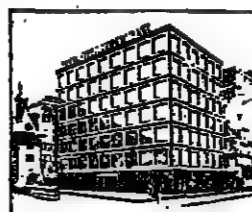
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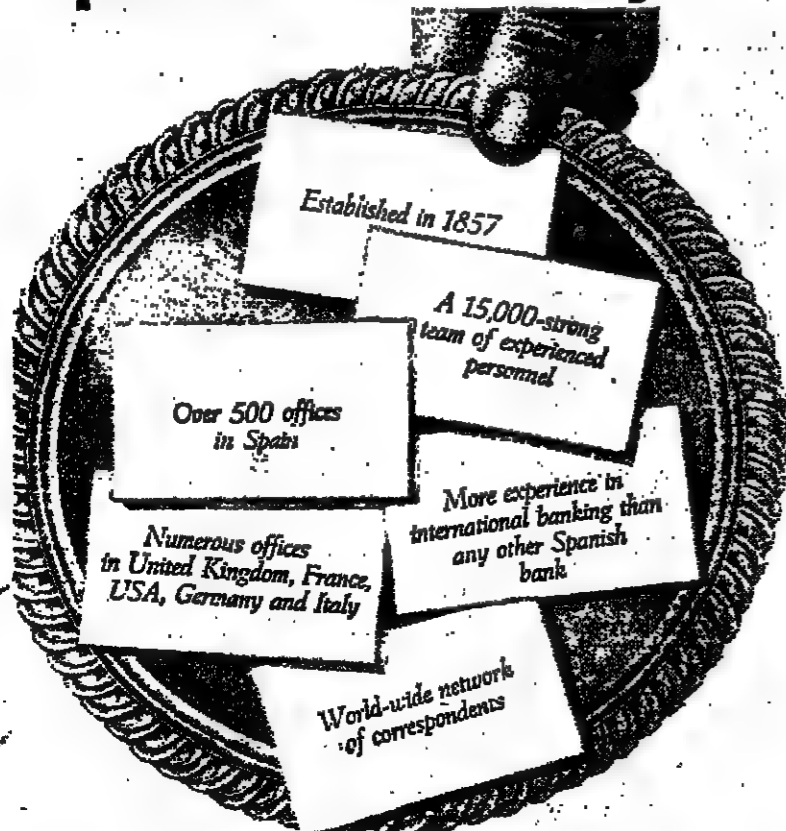
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WORLD BANKING XVIII

NEW ZEALAND

A slow improvement

SPECULATION about possible devaluation of the New Zealand dollar should have been killed completely, first by recent Government fiscal moves and secondly by internal economic trends such as the booming wool price and improved meat and export receipts.

New Zealand devalued by 15 per cent. last August and there have been periodic rumours that another devaluation is in the wind. These, however, can be discounted. It would make no sense for New Zealand to devalue under existing trends and indeed such a move would harm rather than help the economy.

With improved wool and meat prices farm incomes have risen substantially above last season's disastrous low level and seem set to keep on rising for some months ahead. Exports generally are starting to pick up again—the August devaluation gave exporters a valuable incentive—and wage increases have been kept to a modest level.

Devaluation now would do little to improve the farm income trend but the increased consumer prices which would follow would certainly stimulate trade unions into another fierce round of wage demands.

The National Government, which is capitalising on the gradual improvement in the economy caused by more favourable external factors, does not want another dose of price rises caused by devaluation. So it Prime Minister and Minister of Finance Mr. Robert Muldoon is asked during his overseas tour in April and May of the possibility of a New Zealand devaluation his firm, terse answer will be "forget it."

Even if Australia, which in many ways is affected by the same external factors as New Zealand, were to devalue it is unlikely that New Zealand would follow suit.

The New Zealand economy is still sick but can be described as convalescing. Inflation is still running at a high level

and although much of this is imported inflation due to overseas price increases on the imports New Zealand cannot live without—for example, oil—internal inflation appears to be improving.

Export receipts are picking up again, wage costs are being kept under control, with it must be said, the co-operation of the unions which have shown restraint in accepting only modest wage increases, consumer demand is slackening, private and Government capital works and expenditure has been curtailed and house building has slowed down.

Pricing

Widespread price increases—particularly of government services such as post, rail, electricity, freight and consumer items carrying subsidies—which came into force on April 1 to make pricing more realistic in comparison with costs, will further reduce demand.

In March the Government moved to tighten hire purchase on cars and television sets—both items with costly import content. This was another indication of the National Government's determination to restrict imports without extending import licensing and although the new import licensing schedule effectively reduced the volume of those imports still covered by controls, by allowing only the same monetary value as last year, the Government did not extend the list of items covered by licensing.

For bankers—and for commerce generally—the most significant, long-term development in the New Zealand financial structure over the past few months has been the freeing of trading bank interest rates from their previous rigid control.

This has thrown overboard a philosophy which has been inherent in the New Zealand financial structure for forty

years. A rigid policy of low interest rates has been pursued by successive governments of all political parties. Government interest rates and those of the trading banks were controlled and always kept at levels well below the point they would have reached under a free market.

This put trading banks at a disadvantage in their operations when competing against non-banking finance institutions. The interest rates on government and local body securities were in fact so far below the market levels offered by other financial organisations, that virtually no one would buy them except institutions which were required by law to hold a certain amount of their deposit funds in government stock.

For many years trading banks and leading economists have been agitating for more freedom in determining their own interest rates. They received guarded support from the Reserve Bank but this was not sufficient to overcome the strongly entrenched opposition to any freeing of interest-rate controls which existed within the Treasury.

Now trading banks which have been under interest-rate controls since before the Second World War have been given the freedom to operate at normal market levels. They can offer more on deposit rates and charge more for loans and mortgages. Indeed, many trading banks have not yet adjusted entirely to this new situation.

They must now adapt their methods to work in a competitive situation. This has left the banking sector in something of a ferment, but this will settle down within a few months. It means, however, that New Zealand's banking activities in the borrowing and lending sphere, along with interest rates, will in future be more fluid as compared with the very

rigid pattern which has applied for so many decades. Most institutions have raised their mortgage rates by one to one and one-half per cent, to keep ahead of trading banks. The banks themselves can, for ever interest rate they think is justified or necessary to win the business. Government securities are now more attractive. Part of the new philosophy is a realisation that variable interest rates can play a positive role in the control of inflation. They will encourage savers and remove distortions created by partial control of a complex market. The public will eventually find more mortgage money available through the traditional institutions and will not have to borrow so much from the costly fringe market.

Invested

Over the past years a considerable amount of house-mortgage in New Zealand has been done through solicitors' funds. Some of this has been invested in less than part-time secured loans and this too is likely to disappear under the new freedom the banks are starting to enjoy.

Another aspect of the new move has yet to develop and when it does it may well come as something of a shock to many New Zealanders. This is the acceptance of the fundamental rule that interest rates can also go down as well as up. In New Zealand there has only been a movement in one direction, upward, for many years.

For New Zealand bankers, however, 1976 has been the year they won their freedom. Each of the five trading banks is approaching the new situation in a different way, and all are publicly secretive about the interest rates they are offering for deposits above NZ\$12,000. Some have introduced two scales—one for NZ\$12,000 and NZ\$25,000, another for NZ\$25,000 and above.

Each bank seems to have approached the new situation differently. One bank is offering better rates for three year deposit terms, while others are trying harder to secure short term deposits.

None of the banks is anxious to be so aggressively successful in attracting deposit funds as to put non-banking institutions out of business. This could happen with some of the weaker finance houses, and bankers believe the Government would be unhappy to see this occur.

The last thing trading banks want is to lose any of their new found freedom—particularly as few expected this to be so extensive.

Although the New Zealand economy and the finance situation generally still has a long way to go to recover, it is moving in the right direction. The terms of trade are still extremely bad, but there has been a moderate improvement and this in itself is a cause for relief.

The swings in New Zealand's terms of trade over the past five years have been extraordinarily violent and have had a tremendous impact on the New Zealand economy. Taking 1957 as a base index of 100, the terms of trade in 1972 increased progressively in New Zealand's favour each quarter from 95 to 108. By the first quarter of 1973 the index was up to 116 and

peaked at 124 in June to go down in the latter part of the year and then accelerated until by 1974 it was down to 45 points in a relative period. It kept on falling into 1975, when bottom at a figure March this year it back to 74.

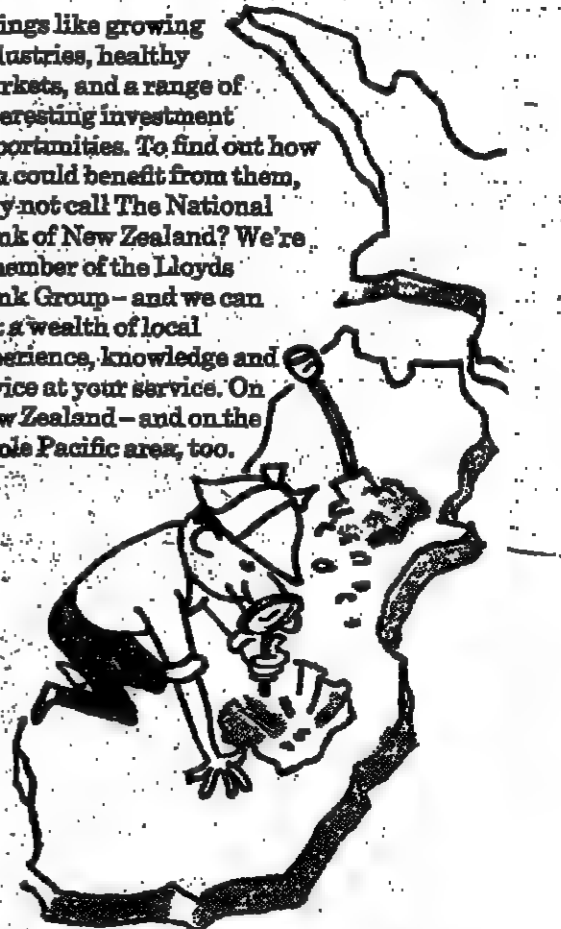
Caution

With restraint and with the coat improvement in New Zealand's external situation to continue its gradual this year. There is no possibility of any easing by Government the whole of 1976. ing for such moves budget will be a reduced level of and consumption required to get the back into balance. Next year, however, some easing—part of New Zealand's balance situation may the disastrous level past two years.

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AUSTRALIA

Lack of direction

THERE HAS been more than one sign lately that the Australian banks are becoming decidedly irritated with the directions of the new Government's economic policies—or rather, as they see it, the lack of clear direction. Only a small part of the criticism has emerged in public and it seems to have made little impression on the Prime Minister and his senior advisers.

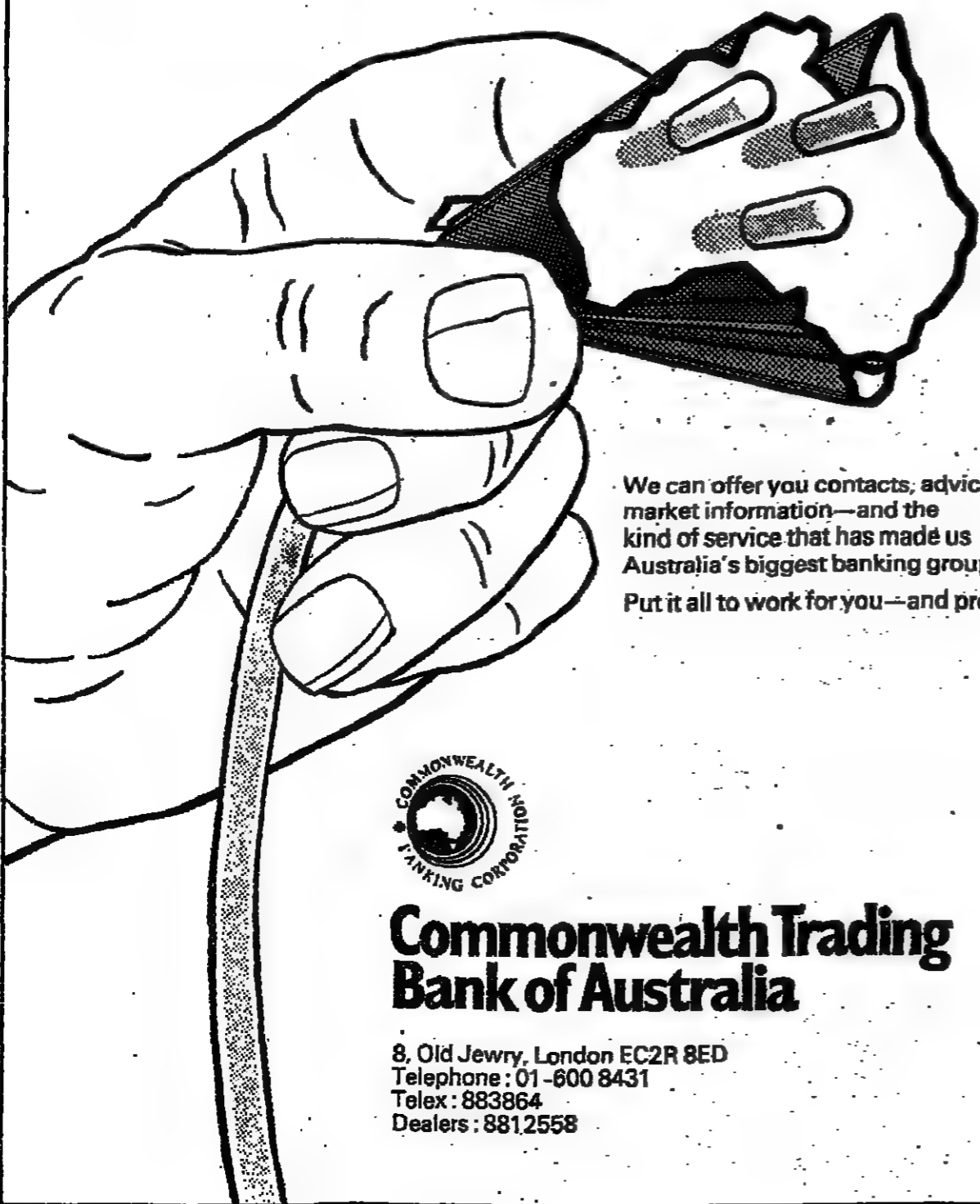
The banks have gone through a particularly difficult two years, starting from the previous Labour Government's massive credit squeeze in 1974, through the constitutional crisis of last year, when they were under pressure for a time to take extraordinary action to alleviate some of the effects of Parliament's failure to pass the budget, up to the present—where there are increasing doubts about the new Government's strategy for economic recovery.

Government policy, however, has not been the only new difficulty faced by the bankers. Competition has reared its unfamiliar head in a number of directions. The introduction of negotiable certificates of deposit (NCDs) two years ago saw an enthusiastic rush for funds with real competition on interest rates in such a field for the first time in many years. Fingers were pointed at Mr. Phillip Lynch, announced and it became a matter of concern to maintain the statutory minimum of liquid funds and so far, this action seems just Government securities (LGS) as likely to sustain the talk of ratio). The venerable Bank of New South Wales was one of the first to have to pay the SRDs had been increased by 1 per cent. That was followed by the introduction of a new Government security, the Australia Savings Bond (ASB), series 1, which had to be closed tough, and largely untested, after three weeks when it had trade practices Act has meant soaked up \$A759m. The series 1 that the banks now talk to each ASB carried an interest rate of 10.5 per cent, compared with the 10.2 per cent on offer at behaviour, which is now the longer end of the normal Government loan, floated at the Government rein is still a tight one by any standards (the quid The ASB idea was aimed pro quo for a system which deliberately at what the virtually guarantees the banks Treasurer chose to call the against failure), it no longer household savings area, where, amounts to simple direction on for example, savings bank most matters of commercial depositors alone hold more than

Denials

The continuing denials can only suggest that such fears in the business community have not been dispelled. One of the favourite quick-acting measures of Australian governments to increase or reduce liquidity is to change the level of funds which the banks are compelled to deposit with the Reserve Bank—the statutory reserve deposit (SRDs). And on April 8, after more than two months of assiduously mopping up liquid funds wherever they could be found, the Treasurer, Mr. Phillip Lynch, announced a 2 per cent. release from the SRDs, amounting to \$A300m. So far, this action seems just Government securities (LGS) as likely to sustain the talk of ratio). The venerable Bank of New South Wales was one of the first to have to pay the SRDs had been increased by 1 per cent. That was followed by the introduction of a new Government security, the Australia Savings Bond (ASB), series 1, which had to be closed tough, and largely untested, after three weeks when it had trade practices Act has meant soaked up \$A759m. The series 1 that the banks now talk to each ASB carried an interest rate of 10.5 per cent, compared with the 10.2 per cent on offer at behaviour, which is now the longer end of the normal Government loan, floated at the Government rein is still a tight one by any standards (the quid The ASB idea was aimed pro quo for a system which deliberately at what the virtually guarantees the banks Treasurer chose to call the against failure), it no longer household savings area, where, amounts to simple direction on for example, savings bank most matters of commercial depositors alone hold more than

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WORLD BANKING XIX

SINGAPORE

Little excitement

A series of measures during 1975 included the introduction of a generally healthy export and pre-fairly healthy export bills to exporters in May here was little and further modifications of art from the this to encourage greater participation in October; the reduction of the minimum cash "dox" lending by its with the Monetary Authority of the new collapse-up of companies. Mr. Ho Sui ley in a nutshell get speech: "Our is geared to supply growth rate moved from 10 per cent in 1974 to 19 per cent. This was a healthy 1975 and 21.5 per cent at the beginning of 1976, although the festive season activity almost certainly accounted for some expansion at the beginning of this year.

In his budget speech, Hon outlined the major features of Government policy as the expansion of money supply to ensure finance for the productive private sector at reasonable interest rates, liberalisation of foreign exchange control, development of the forward exchange market to give safe and favourable cover to traders grappling with floating rates, and encouragement of the bond and capital markets, with banks competing more in interest rates and discounts.

The foreign exchange liberalisation had already taken place in February this year with the extension of the scheduled territories to include Indonesia, the Philippines and Thailand, allowing Singapore residents to invest freely in these countries; the removal of restrictions on

import and export of certain currency notes; the raising of the limits on Singapore residents' investments in foreign currency deposits and securities and properties, outside the scheduled territories, to \$3250,000 for individuals and \$55m. for corporations.

In addition, exchange control formalities were removed for transactions up to \$550,000, substantially reducing the associated paperwork and need for documentary evidence. There are now 70 banks operating in Singapore, an increase of eight over 1975—the new banks were one full-fledged local bank, the Tat Lee Bank, and seven foreign offshore banks (not allowed to take on domestic business without special permission).

The 70 include 37 full banks, 12 restricted banks (not permitted to take deposits below \$250,000) and 21 offshore banks. There are also 38 representative offices, 21 merchant banks and one merchant bank representative, 20-odd regional offices, four discount houses and 36 finance companies.

A local monthly, Singapore Trade Industry, reports this month that the merchant banks, which did extremely badly in 1974, losing almost \$31m, but slightly better in 1975, have been finding some of the Singapore Stock Exchange rulings on underwriting work rather obstructive. In particular, they feel that the risk exposure period is too long for a speculative market like Singapore's. Another problem for the merchant banks is the innate conservatism and secrecy of many local family businesses, afraid that consulting a merchant bank might reveal too many insider secrets.

Because of brisk competition in a small market, most merchant banks are now specialising—DBS Deals in bonds for instance. New Court Merchant Bankers (with Rothschild link-ups) in bullion. Few merchant banks in Singapore deal in commodities.

Australia

ON PREVIOUS PAGE

they seem resolved not to spend. Discouragement of a large federal investment, but just how little to say. Now into series 3, one progressively point where it only a trickle of latest release of SRDs, however, have been very pressure—as to some, as at the mid-1974 winter their cash banks have been by notes to the offering commercial certificates of market and government bonds, less is normal for ar but the recent ble in the wool rated it.

a matter of fine balancing for the monetary authorities. Despite the Government's continued determination to reduce the budget deficit by every means available, deficit spending at the rate of about \$400m. a month will provide an important part of the balance.

Back in January, the banks agreed with the Reserve Bank and the Government to hold new lending commitment to about \$490m. a week, with the aim of holding money supply growth under 15 per cent. New commitments had been \$490m. a week in December. They were \$498.5m. in January, \$496.5m. in February, and \$4107m. in March. Neither the banks nor official sources have admitted to a change in the guidelines. If, in fact, there has been none, it will be interesting to see whether the Government is prepared to accept the banks' judgments ahead of its own.

Mr. Lynch's critics are starting to accuse him of holding a fixation about the money supply as a prime concern in the Government's efforts to reduce inflation. The Treasurer has talked of his mopping-up operations in terms like "defusing a time bomb," but the fact is that there is no sign of all the money in bank accounts being trans-mitted into inflation. There has been no build-up of real activity in the economy and, indeed, the Government, which hammered

the need for an investment-led recovery in its election campaign last December, is now exhorting people to get out and spend—without success.

The Government has shown the flexibility it promised; even at the cost of some confusion among the bankers. There seems, too, to be a growing realisation of the need to go beyond the banks for advice and information—a belated recognition of the rise and diversification of the non-bank financial institutions in the past eight years or so.

Mr. Lynch has established a widely representative "economic consultative group" and a series of advisory committees corresponding with the categories defined under the Financial Corporations Act, originally seen by the Labor Government as a more direct instrument of control in the fringe bank area. Naturally it will be a slow process developing this sort of consultation into anything approaching a quick reaction monitoring system, let alone an effective arm of economic management. It is a start, however, and it probably speeds the beginning of an inevitable move away from the situation where the banks were the sole front-line institutions in Australian economic management.

Kenneth Randall
Canberra Correspondent

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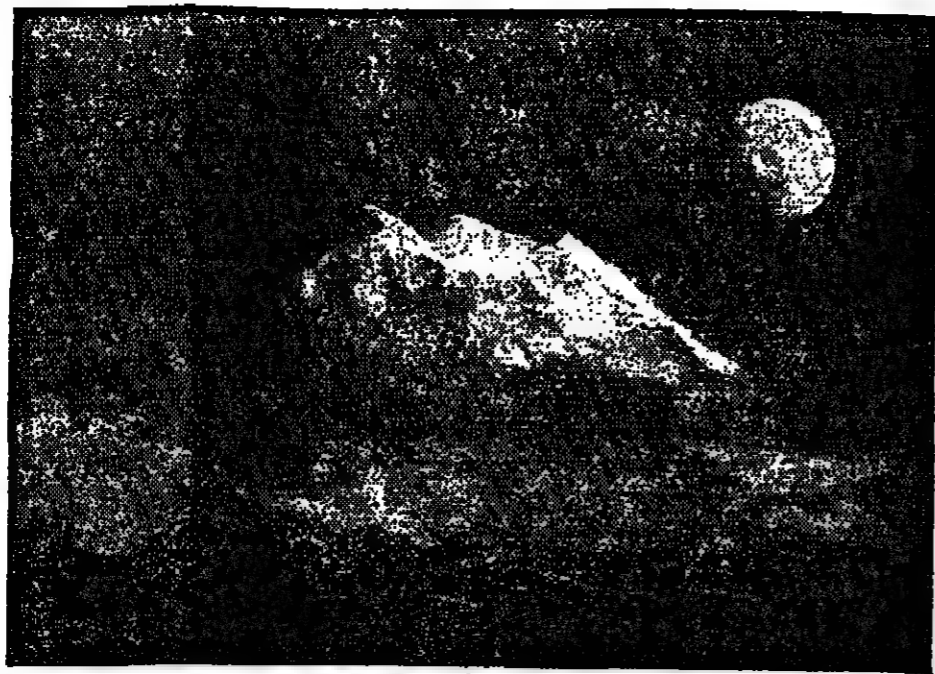
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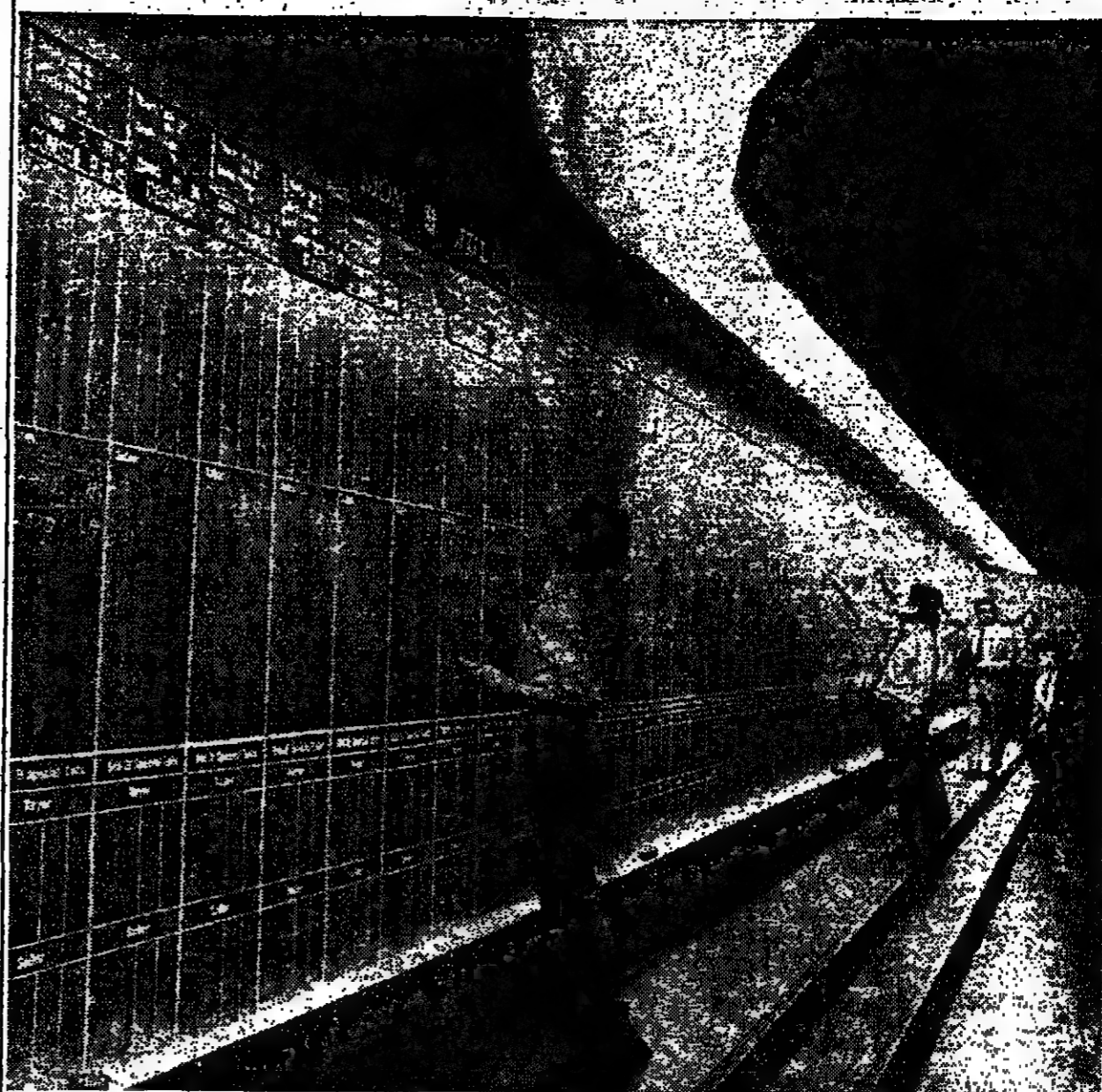
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HONG KONG

Better than expected

THE PAST year has not been a particularly easy or profitable one for Hong Kong's banks, but it has certainly turned out better than many bankers expected at the beginning of 1975. Two years of economic stagnation in a growth-minded economy coming after an unprecedented boom could well have been expected to lead to serious problems. They did not.

There were three reasons for this. The first was conservatism on the part of bankers still mindful of the 1965 banking crisis—one of the watersheds of the Colony's economic history—and perhaps forewarned by the early 1973 stockmarket collapse. (The Colony must always be thankful that over a year elapsed between the market collapse and the sharp move from boom to slump conditions. The time gap was crucial for many, including some banks which for a while were overexposed in stock and property loans.) The bankers' ensuing conservatism in 1974 was reinforced by the watchful eye of the Banking Commissioner.

The second reason was that banks in Hong Kong are still concentrating very much on short-term trade finance secured on goods in transit or in process of manufacture. For example, at the end of 1975 general commerce accounted for HK\$9.3bn out of total loans and advances of HK\$24.9bn. Comparatively little is advanced in respect of long capital spending programmes by industry, or in property financing and the like — though these have grown in recent years.

By the end of 1975—the liquidity of the banking system had increased to 49.5 per cent. from 44.9 per cent. a year earlier and rose over 50 per cent. in early 1976. The liquidity ratio was in fact slightly exaggerated by the very rapid growth of overseas business. Amounts due to banks abroad rose by HK\$5.8bn. to HK\$21.9bn. during the year and amounts due from banks abroad by HK\$4.5bn. to HK\$21bn.

As most of the claims on banks abroad count as liquid assets, when they grow more rapidly than domestic deposits, the apparent liquidity rises faster than it would otherwise do. Still, by any measure liquidity grew rapidly—as for example, measured by the ratio of domestic loans and advances to domestic deposits, which fell from 78 per cent. to 69 per cent.

Rising liquidity and falling interest rates can of course be bad for bank profits, particularly in Hong Kong's situation where the lack of HK liquidity instruments means that banks must be careful to avoid exchange losses in acquiring liquid assets denominated in other currencies. Nevertheless, the year cannot have been a bad one from the point of view of interest rate spreads.

Rates reached a low in recent years on March 12, 1975, and have stayed there ever since, with the savings deposit rates down to 2.5 per cent. and time deposit rates ranging from 3.25 per cent. for three months to 5.5 per cent. for 12 months. The quoted best lending rate has also come down—to 8.5 per cent. But with banks still quite cautious about their lending, customers have not been able to shop around easily to get close to the prime.

Banks in Hong Kong are not required to reveal their true profits, so it is not too easy to determine what effect all this has had on profitability. Some observers suggest that ordinary trading profits have been buoyant because of the sharp increases in balance sheet totals and interest rate trends, but that some substantial provisions

have had to be absorbed in respect of casualties of the recession. The Hongkong and Shanghai Banking Corporation increased its declared consolidated profits by 11 per cent. to HK\$33m. However, all of this, or even more, appears to be attributable to its subsidiaries, notably Wandley, its merchant banking arm, British Bank of the Middle East, and Hang Seng Bank, its continued to expand rapidly.

In the first six months of 1975 domestic deposits of the banking system rose HK\$3.1bn. to HK\$4.1bn., an increase of nearly 10 per cent. at a time when the state of the economy as a whole was at its very worst. This unusual state of affairs was not necessarily very profitable for the banks, but it did mean that executives did not lose sleep at nights. There was never even the beginning of a serious rumour of a run on a finance company, let alone a bank.

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Smooth

More typical of specifically local conditions would be the Hang Seng Bank itself, where profits rose by 11 per cent. to HK\$91m. and the Bank of East Asia, the leading local Chinese-controlled bank, where profits rose 3 per cent. to HK\$25.3m.

Not everyone has had such apparently smooth sailing. For example, Overseas Trust Bank, in which the Toronto Dominion Bank has a major stake, and which controls another Hong Kong bank, the Hongkong Industrial and Commercial Bank, has experienced a very sharp fall in profits. It is possible that its profit problems might be related to non-banking interests.

The extent of equity interests in non-banking operations held by some Hong Kong banks, most notably the Hongkong and Shanghai Bank with its big holdings in, among others, Jardine Matheson, Cathay Pacific, Y.K. Pao's world-wide shipping group, Hutchinson and the Cross Harbour Tunnel Company, is still sometimes a subject of criticism in Hong Kong—not that many dare raise their voices too high. Though much is said of Hong Kong's dedication to economic liberalism, it is the power of money and monopoly rather than of the principles of Adam Smith that often count most.

While the commercial banks have thus generally had an unremarkable year in profit terms, the merchant banks catering to the Hong Kong domestic market have been experiencing a very sharp recovery from 1974 and early 1975 when they sat around doing almost nothing. Since the middle of last year there has been a very steady stream of major offerings—rights issues, convertibles, bonds, running into many hundreds of millions of local dollars.

Many of the big names have been there—Jardine Matheson, Hongkong and Whampoa dock, HK and Kowloon Wharf, HK Telephone—even the Hong Kong Government itself, with a HK\$250m. bond issue. Wheelock Marden is to join the list—for reasons as yet unexplained—and the Mass Transit Railway will be looking for more local finance. There have also been

Victory

This regulation companies was a vic established banks. It be seen whether the Secretary will ret earlier promise to banks in turn to g petition, either by g licences or ins "middle" class of between the banks companies. His of postal to do this w. in late 1974 because from the licensed time of financial in. Something else Financial Secretary wanted to do was banks avoiding a lan tax by channelling in Hong Kong throu accounts which th overseas income tax. Actual tax rate in Hong Kong are be no more than abou cent. This is a me considered by a Revenue Ordinance Committee recently examine the mec direct taxation in the Philip I

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us Bank	9 1/2%	Hongkong & Shanghai	9 1/2%
her	10%	Industrial Bank of Scot.	9 1/2%
so	10%	Keyser Ullmann	10%
s	10 1/2%	Knowsley & Co. Ltd.	11 1/2%
us	10%	Lloyds Bank	9 1/2%
f.	10%	London & European	10%
one S.A.	10%	London & Montreal	9 1/2%
ngs Ltd.	10%	Midland Bank	9 1/2%
dt. East	9 1/2%	Mitsui Bussan Kaisha	9 1/2%
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s	10 1/2%	Shenley & Co. Limited	11 1/2%
s	10 1/2%	Trade Development Bk.	11 1/2%
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Trust.	10 1/2%	Members of the Acceptance House	
aranty.	10 1/2%	1-day deposits 5%, 1-month deposits 5 1/2%.	
under	9 1/2%	12-month deposits on sums of 10,000 and over 5%, up to £25,000 6 1/2% and over £25,000 6 3/4%.	
there	9 1/2%	Demand deposits 7%.	

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976	Silver Completion			April 24	April 22
	Low	High	Low		
80.19	127.7	99.1	Daily	184.1	146.0
(21/78)	(41/36)	(51/76)	Gold-Edges	218.7	253.1
59.78	100.6	60.6	Industries	64.5	85.3
(21/78)	(161/164)	(41/75)	Speculative	139.0	159.2
381.6	243.0	49.4	Gold-Edges	133.6	149.4
(51/78)	(161/72)	(26/60)	Industries	106.7	197.8
140.1	442.9	48.5	Speculative	63.6	61.6
(47/76)	(26/71)	(38/107)	Total	183.8	139.5

April 23	April 22	April 21	April 20	April 19	April 14	A year ago
158.77	161.62	164.37	162.68	159.51	159.45	130.89
176.07	178.74	181.37	179.50	176.99	176.34	140.39
5.42	5.35	5.25	5.30	5.40	5.40	6.24
10.43	10.68	10.85	10.72	10.26	10.29	6.39
165.62	168.47	171.05	169.07	166.07	165.55	140.47
14.19	13.99	13.60	13.60	13.59	13.58	15.16

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20041	Jewett Jewelry Co. RA162	1/78	1	457	M & C Group (C) 10/1	
20042	J.E.T. Managers (Jersey) Ltd.				Marine Tower RA10	
20043	PO Box 10, Nesh. Tel. Hous.			5554941	MAI Island	20/1
20044	PO Box 10, Nesh. Tel. Hous.				Marine Tower RA10	
20045	Age 38 at 31. Next ship April 30				Atlantic April 28	
20046	Jardine Fleming & Co. Ltd.				Age & Gen. April 28	
20047	3rd Floor					Cent
20048	Service Jpn. P&G	\$1282.50	1	5.98		
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95.56	0.52	0.54				GE-S&S Club 31
95.58	0.52	0.54				Insurance Co.
95.60	0.52	0.54				GE-S&S Club 31
95.62	0.52	0.54				Insurance Co.
95.64	0.52	0.54				GE-S&S Club 31
95.66	0.52	0.54				Insurance Co.
95.68	0.52	0.54				GE-S&S Club 31
95.70	0.52	0.54				Insurance Co.
95.72	0.52	0.54				GE-S&S Club 31
95.7						

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118.7	---	---
174	---	---
98.1	---	---
98.6	---	---
97.8	---	---
Insurance Co. Ltd.		
premium	04823841	---
8.8	114.6	---
8.8	133.9	---
3.8	119.4	---
5	87.4	---
2.4	128.4	---
8.0	113.2	---
0.7	128.8	---
0	86.1	37.8
8.8	124.7	---
+ 1200 premium		
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	04823841	---
103.2	---	---
67.8	---	---
123.6	---	---
67.8	---	---
Insurance Co. Ltd.		
premium	01-028 4028	---
1.9	117.8	-2.1
0.8	146.0	-3.9
8.8	135.3	-5.8
3.7	127.9	---
1.8	110.4	---
Co. Ltd.		
Cent.	00823838	---
128.3	+1.7	---
86.2	+1.9	---
14.5	+1.7	---
100.8	+1.7	---
10.4	+0.1	---
99.9	+2.0	---
76.3	+0.9	---
48.6	+0.9	---
SP. Co. Ltd.		
Window	0014	---
4	54.1	---
0.8	0284.0	---
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7	100.7	---

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Holdings N.V.		
Co. N.Y., Chartered		
d Apr. 20. \$1,536.12		
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Co. N.Y., Chartered		
d Apr. 20. \$1,628.50		
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sume Int. Prod.		
6524 37331		
& S. Heiser, Jersey		
\$1,536.12	1.25	6.00
\$1,628.50	1.25	6.00
77.25	7.65	6.00
29.60	10.45	12.8
171.0	182.4	--
107.0	102.4	--
5182.4	---	--
97.5	---	--
S. Intl. Adv. Co.		
Newburg		
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5023.13	1.01	-
5087.078	-	-
1. Ntng. Jry. Ltd.		
Hefco, Jry. Cl. 0524 2094		
51.34	8.25	-
218.40	10.75	-
242.59	12.75	-
242.59	12.75	-
2121.39	11.40	-
with Management		
1. Lisenbourg.		
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Notes

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FINANCIAL TIMES SURVEY

Monday April 26 1976

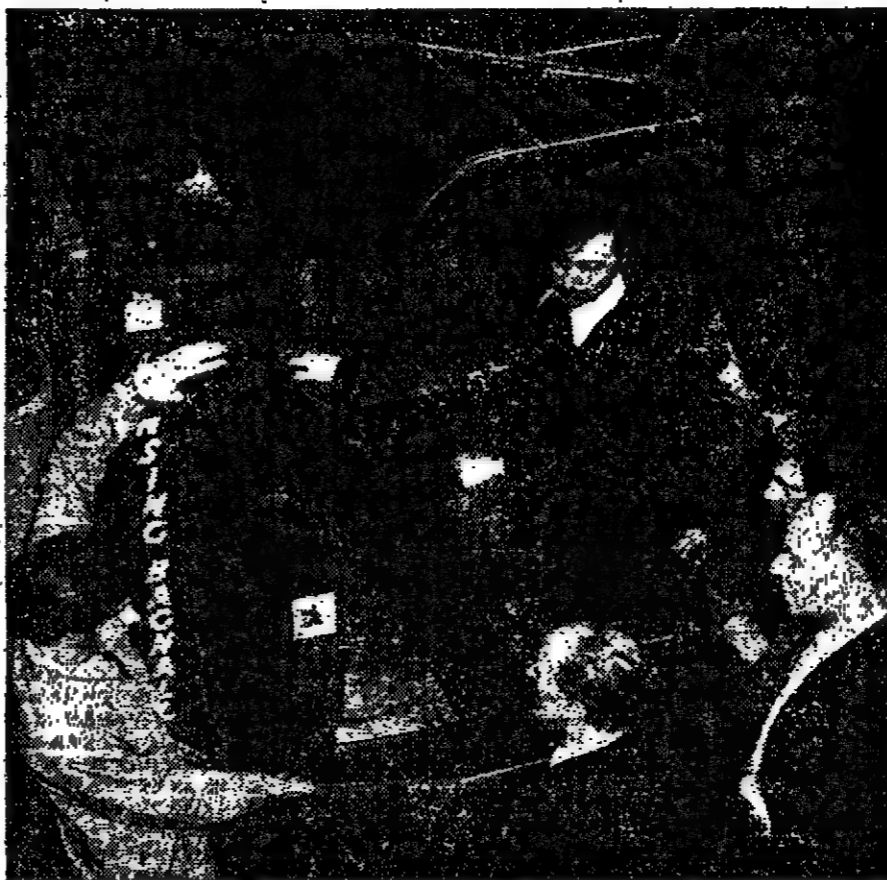
Storage and Warehousing

The storage and warehousing sector is looking to the future more cheerfully as the recession ends. It is heartened by the growing realisation in industry that it has a real contribution to make in holding down costs through the provision of new and flexible techniques.



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Some resistance to larger operations

NEW WAREHOUSE development has been hit by the bursting of the property bubble and the gloom and uncertainty of the current economic recession. As investment confidence declined, rents eased and there was little incentive to undertake new ventures.

Figures released by agents, King and Co., illustrate quite clearly the knock the market has taken: throughout England and Wales at the beginning of this year there was more than 75m. square feet of vacant factory and warehouse space compared with only 34m. square feet just 12 months earlier. However, agents report an upturn in demand over the past couple of months and there is growing optimism that the market for warehouses may again be on the move. Indeed, some agents warn that demand could accelerate so quickly that supply in some parts of the country, particularly the south east, may prove inadequate in the short-term.

Warehousing is so crucial to the total stockholding and distributive function that the location, design, and equipping of the building must be carefully considered.

Economies

The trend has been towards larger and larger warehouses and studies undertaken by the National Materials Handling Centre illustrate the potential economies which can be realised from large scale operations. The Centre's Inter-firm Study of Wholesale Transportation and Warehouse Costs made the point that considerable savings per unit could be achieved if distribution could be rationalised into warehouses which had a throughput of more than 50,000 cases a week.

However, the reduction in costs of handling which can be achieved by using larger warehouses must be weighed against the transport costs of having fewer but more widely dispersed depots. The days of cheap fuel have long since passed and, even though the rapid escalation in energy prices may now have eased, operators must pay close attention to their total mileage costs.

The Government's recently published Transport Policy consultation document suggests that heavy lorries do not make a big enough contribution to road and environment costs and proposes higher taxation—a move which the Freight Transport Association estimates could raise distribution costs by up to £350m.

Another factor acting against larger warehouses is the reluctance of many insurance companies to provide cover at reasonable rates for areas of more than 30,000 to 40,000 square feet. Operators may be required to compartmentalise the warehouse by erecting fire-restricting doors. Apart from the obvious expense of such work, it can disrupt the smooth working of the storage system.

The important point for an operator to remember in commissioning a warehouse is that the building must retain its flexibility if it is to realise its full re-sale value. Valuable as purpose-built buildings may be to the current occupant, they

may require expensive alteration and improvement if used for another trade. In response to this requirement, most new warehouses consist of a basic shell within which each tenant or purchaser can adjust the internal layout to suit special needs.

A handicap to the efficiency of many companies is the continued use of old-fashioned warehousing, equipped to deal with the needs of a former era and unsuitable for the sophisticated loading and handling techniques which are now available. Such premises may be oriented to the rail network and inconveniently sited for easy access to the developing motorway network.

Mr. Ken Firth, assistant director at the Materials Handling Centre, points out that it is very difficult to convince an operator that he would do better to relinquish old premises, which may stand in the accounts at virtually nothing, and invest in new warehousing.

For operators studying the problems of warehousing there is no shortage of expert advice. Apart from the Materials Handling Centre and other official bodies, there are many private consultancy firms.

Companies supplying materials handling equipment will also often enter into an arrangement with the contractor responsible for erecting the building to offer a complete service. The importance of the building and its services in contributing to handling costs are often underestimated, even where the operator goes to the trouble of trying to assess the total cost.

A survey conducted by the Materials Handling Centre of 30 companies in the engineering sector came to the conclusion that: "Although the importance of high indirect labour costs is frequently recognised, the equal significance of good use of building space is not." The study indicated that labour accounted for 43 per cent. of total handling costs, but buildings were responsible for a higher proportion, at 47 per cent.

An important factor in gaining maximum utilisation of space is to plan stockholding and storage as a complete system rather than dealing with the situation on an ad hoc basis. The Materials Handling Centre points out that the savings which can be made by method changes within particular departments considered in isolation are restricted. The danger of allowing the handling of material flow to develop in a fragmented manner is highlighted. "Greater savings can be achieved" by taking a company-wide view of materials flow problems and implementing changes against a background of overall system designs," the Centre advises.

The value of warehouse facilities tends to be directly related to their access to the motorway and road network. For this reason the Government's preliminary thoughts about road building, as set out in the recent Transport Policy consultation document, are particularly relevant.

The previous Labour Government in 1970 published a White Paper in which it set the target of building by the mid-1980s a strategic network of some 4,200

miles of highway within easy reach of all the major towns and ports. But, with Britain's declining economic position and the increased emphasis placed upon preserving the environment, the programme has been steadily eroded. The Government has said that new roads in urban areas will usually only be allowed when it can be shown that other measures—such as traffic management, parking restraint, improvement of public transport, and more limited road improvements—cannot cope with the problem.

The recent White Paper on public expenditure illustrates clearly the way the Government has downgraded the importance of major new road building. In the last financial year only 51 per cent. of total transport spending was allocated to road construction and maintenance compared with 63 per cent. just 12 months earlier.

New road building in Scotland and Wales will be heavily influenced by development which will eventually connect needs, particularly north of the border where improved communications should contribute ham and the route from the

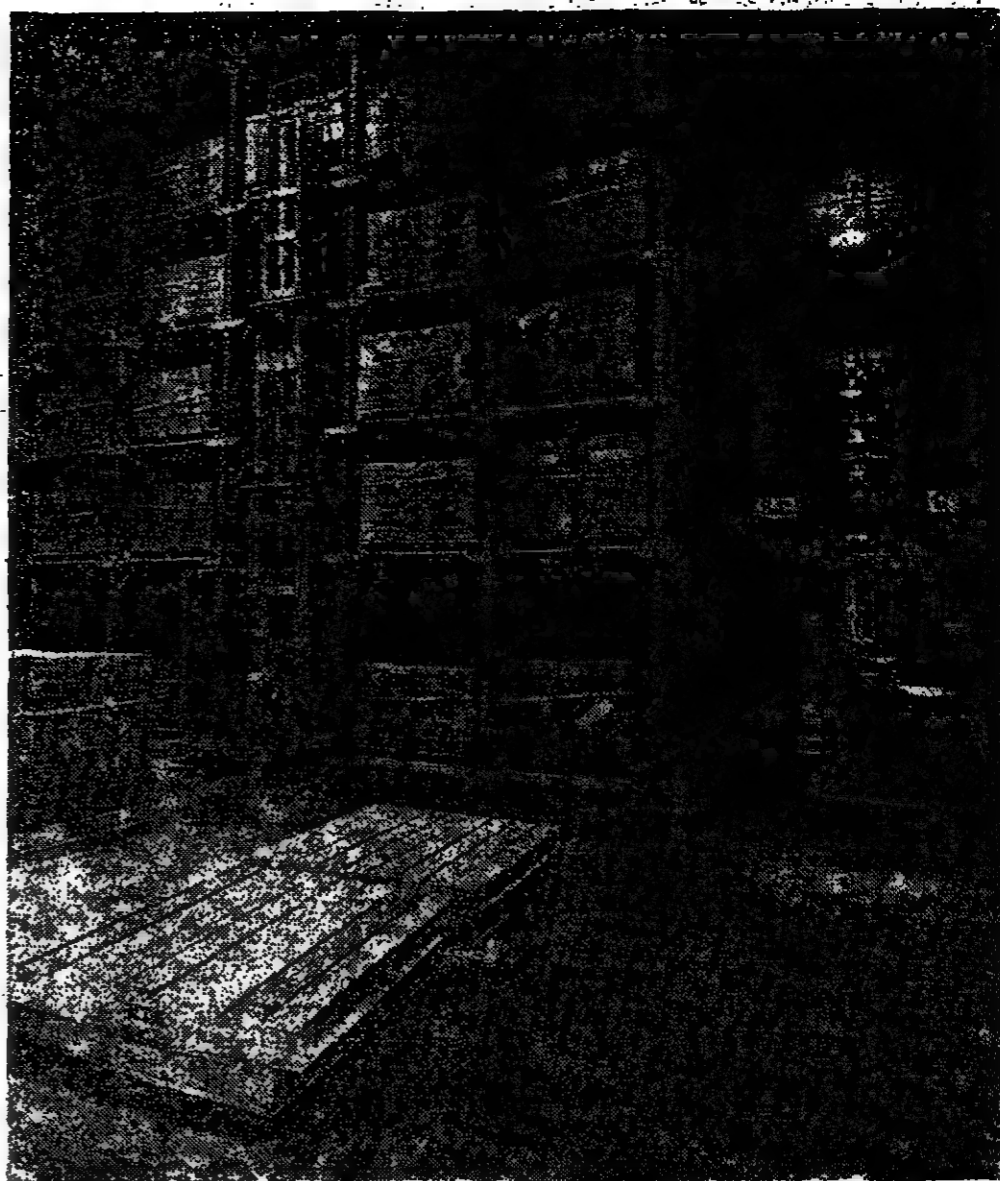
Midlands to Felixstowe, Ipswich and Harwich. Historic towns which have by-passes due to start in the next few years include Canterbury, Dorchester, Ludlow, and various towns on the route to the West Country. Schemes designed to reduce congestion include the widening of the southern end of the M1, the Chelmsford and the Colchester eastern by-passes, and the M42/M40 to the south east of Birmingham.

The consultation document dismisses the road versus rail argument and supports the view that there is not scope for the massive transfer of freight to rail. However, attention is drawn to the grants available to companies who might wish to set up private sidings. A number of these grants have already been made and £35m. has been set aside for this purpose over the next five years.

Overall, the outlook for warehouse operators is encouraging. As investment confidence picks up and the economy develops new momentum, the opportunity for new developments should be greatly enhanced.

Arthur Smith

The central stores of North Thames Gas at Bromley-by-Bow.



Dramatic increase in Bodyswapping

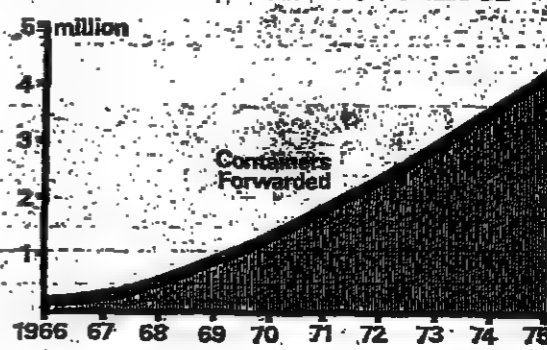
One reason why Freightliner has grown into the world's most advanced road-rail container service is its versatility. Almost any product can be delivered more quickly, safely and economically over the long haul. And the further it has to go, the greater the saving.

The Freightliner bodyswapping concept, with rail for the long haul and road for collection and delivery, has many variations. And new patterns are constantly being developed to suit customers' particular requirements. One important development is the introduction of a nationwide multi-drop delivery service from manufacturer to High Street or factory.

This eagerness to adapt Freightliner to meet the needs of industry has been responsible for its dramatic growth, from the first container carried in November 1965 to nearly 5 million now.

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Advantages

CONTINUED FROM PREVIOUS PAGE

At the same time a perpetual inventory system is operating, together with the creation of orders on suppliers as stocks need to be replenished and the payment of these suppliers, as well as the handling of distribution to stores.

Another project in which CAP was totally responsible for the operating programs (software) was the Trappes centre for Ciba-Geigy. From this point 30 km. south-west of Paris the company distributes a variety of drugs and toiletries, requiring a 7,000-pallet warehouse. This is aligned in aisles, 70-pallet positions long by 12 high, served by stacker cranes under computer control serving both sides of the aisle.

The store is fed from a single palletising point and pallets for picking are brought to one of three picking stations. All stacker crane movements are directed by the computer (an IBM System 7) and so are those of the input and output conveyors. It is an important aspect of the design of such systems that they make maximum use of the available space and are optimised to cut down the amount of travel a crane has to do, putting the goods in most frequent demand in the most quickly accessible positions.

Also on a System 7 is the unique buffer store racking unit built for Moët et Chandon at Epervay by Mills-K. Here a single computer operator is in control of a stock of quality champagnes worth £10m. on average and, of course, the whole system has been designed to work with the delicacy necessary when each pallet load is worth approximately £3,000.

This is all taking place at the "heavy end" of computing and warehousing. But computer technology is helping in many other ways. For instance, Plessey is using recording techniques developed primarily in support of computer memory systems as the basis of a lightweight recorder which can be used very simply and after minimal training to carry out stocktaking.

Ted Schoeters



STORAGE AND WAREHOUSING V

Educating management

of advisory resources that are currently being wasted and can be reorganised and made available to a wider range of operators.

Since the beginning of this month the Centre has been operating on behalf of the Department of Industry a free information and advisory service. A number of the staff—and they have all had industrial experience as consultants, materials handling equipment designers, or engineers—is available to deal with queries.

Service

Subscribing members of the Centre receive every two months a copy of "The International Distribution and Handling Review" which presents an abstract of important articles from more than 100 international journals. This service provides an important source of information for companies wishing to remain abreast of new developments, while the Centre's library has more than 1,500 books and documents containing technical reports and data.

Mr. Williams

Mr. Williams makes the point that even a very small amount of advice or information, given at the right time, can yield considerable dividends in improved efficiency. There is always a steady demand for advice on which equipment should be used. Companies considering installing new equipment to save money

and improve efficiency will often turn to the Centre for guidance.

For a negotiated fee, companies can obtain more sophisticated consultancy services from the Centre. This can vary from the Centre providing an officer to give guidance on an in-house project, team at key phases of the design process, to complete responsibility for the planning, design and implementation of a major project.

The Centre emphasises that it likes to involve a company's own staff on a project as much as possible because this tends to develop more spontaneous ideas and helps to build up expertise within the organisation. As part of the promotional campaign the Centre is holding a series of seminars between now and June next year in various parts of the U.K. This programme is intended to act as a stimulus and to provide companies with simple techniques to assess and improve their materials handling.

A feature of the seminars will be the findings of a recent survey into the materials handling costs of 30 companies in the engineering sector. So that companies are able to make their own assessment of costs and judge the extent to which they are likely to realise savings, the report of the survey includes two do-it-yourself audit programmes.

From the first programme a company can assess the effectiveness of its materials flow system and identify areas which may need improvement. From the second it is possible to estimate materials handling and storage costs.

Education and training is another important activity of the Centre and courses are provided on warehouse layout and handling methods. Research and development facilities are available and not just into the technical aspects of warehousing but also into markets and products.

Another valuable official source of information is the Warren Spring Laboratory, one of the Department of Industry's industrial research establishments. Research can be conducted by direct contract to a particular company but much information is also released through the scientific and technical press and by lectures and seminars. The Laboratory notes that, because of the general interest in materials handling within industry, the work is particularly suitable for co-operative funding arrangements between the Department and industry.

Automation is one of the ways which storage and warehouse operators have sought to raise their efficiency and impartial advice and practical guidance on methods available can be

obtained from the Department of Industry low cost automation centres.

Links

A national network of centres was initiated by the former Ministry of Technology and they have developed close links with local industry in the areas where they operate. The centres offer guidance to all industries but have proved particularly helpful for materials handling problems. A range of services are offered starting from a basic advisory and demonstration function intended to encourage companies to evaluate potential savings.

Short courses for training employees can be arranged and companies are able to second a member of staff to spend a few days at a centre to acquire first hand knowledge of techniques. Under negotiated contract the centres may also carry out work on a complete project or contribute to some aspect of the company's own activities.

The Department of Industry, in response to the new attention focused upon stockholding, has set up a Committee for Materials Handling with a membership drawn from industry, education, and the professional institutions. The role of the Committee is to "provide a positive lead" in seeking out and encouraging

improvements. It is trying to raise the standard and availability of education and training and to improve management information.

The Materials Handling Centre is able to advise companies by pointing to a few simple principles and providing positive examples of where major savings have resulted. The "elimination technique" involves a critical review of existing operations with the objective of reducing the number of movement operations, the distance moved or the quantity stored. Mechanisation, the Centre maintains, need not necessarily involve high investment. A wide range of techniques is available and some, such as the use of gravity conveyors and unit loads, are low cost and simple.

The Centre also advises companies, not to change handling methods within particular departments on an ad hoc basis but to take a company-wide view and examine the total system. Emphasising the present lack of knowledge about handling costs within companies, the Centre suggests that one way of highlighting costs might be to re-examine management structures.

Apart from the various official bodies able to tender advice to storage and warehousing companies, there are a number of private companies offering consultancy and advisory services. Because the savings from improved systems can be so high—the Materials Handling Centre suggests £90m a year in engineering and allied industries alone—this is bound to be an area which attracts newcomers.

Arthur Smith

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The hazards of fire

SPREAD acceptance of any fire, but given the industry of that no foolproof system has yet been devised, it is equally important that fire fighting equipment is efficient and in good working order. In 1974 a total of 20 warehouses this easily make the difference between a minor incident and a total loss.

Fire fighting in high-bay warehouses is known to be an extremely difficult operation because of their design, and the hazard is such that unless any fire that occurs is tackled immediately it may not be possible to tackle it at all. Reliable automatic equipment is therefore essential.

There are increasing numbers of warehouses which have been designed to use space economically, resulting in high racking storage between long, narrow aisles with no fire separating walls within the warehouse. These factors increase the risk of fire spread and make access to the area of the fire difficult in many cases.

There are usually few doors and no windows, although in some cases break-in points may be available along the side of a warehouse. Inside a building the fire brigade may be faced with a fire high above ground level and only approachable through a maze of unprotected steelwork.

In these circumstances, early warning of a fire by means of an automatic detection system is essential because even a relatively small fire can cause distortions to steel racking or damage heat-sensitive, high value handling equipment, according to the

Fire Prevention Association. An early warning has the added advantage of allowing the fire to be extinguished manually with hoses or extinguishers before the automatic sprinkler system is activated.

Given that other more fundamental precautions have been taken, such as replacing any combustible material and fitting fire resistant doors to the necessary openings, an efficient sprinkler system has a good chance of damping down a fire if it has been properly adapted for the job and well maintained. Tests have shown that sprinklers are needed at least at intermediate levels and possibly at every level and special care is needed to ensure that they are placed where they are not vulnerable to damage by stacking equipment.

Sprinklers

According to experts at the Fire Research Station, no racking system has yet been designed to accommodate the sprinklers and pipework within protected areas which are not accessible to the goods. The normal sprinkler is regarded as particularly vulnerable and an "in line" sprinkler which does not project from the pipe and does not have easily damaged components, has now been developed.

A number of other systems have also been examined but the basic sprinkler system is unlikely to be superseded by them. The possible advantages of roof venting as a means of

reducing the accumulation of smoke and hot gases within a high bay warehouse and the lateral spread of flames across the uppermost layer of goods beneath the roof should be borne in mind. Against this must be weighed the possibility that the vertical flame spread may be accelerated.

It has also been suggested that it might be possible to use high expansion foam to supplement the roof-level sprinkler, but some form of dual alarm system would be required to allow the conventional sprinklers to activate first, then the foam, allowing those fighting the fire to leave the area first. The use of carbon dioxide has also been examined, but on all these systems further research is required.

Companies operating warehouses of a more conventional nature have no reason to be complacent about their precautions, particularly with the value of goods rising at such a fast rate and consequently increasing the potential losses through fire. Despite widespread publicity, many companies do not understand the consequences of losing their entire stock of a product or even of all their products. The importance of being aware of the hazard and of keeping an eye on equipment cannot be overstated.

Some of the most frequent causes of warehouse fires are burning rubbish, from which sparks are blown into the building, engine fires in lorries at loading bays or faults in battery

charging operations, smoking, faulty electrical equipment or combustible material stacked too close to heaters or light fittings and finally malicious damage.

The most effective way of limiting the spread of fire within a warehouse is by subdividing it into fire resistant compartments and installing fire fighting arrangements such as sprinklers should be considered. Loading bays and battery charging facilities should be isolated by fire resistant material.

Access

Hose reels are usually more useful than extinguishers on incipient fires in warehouses because the water supply from them is not limited, but there are advantages to be gained from providing both. Extinguishers can be applied more quickly in many circumstances. Finally, the fire brigade should be consulted about access roads, entrances or knock-in panels and keys to locked doors. Goods should also be stacked in such a way that they are easily accessible and stacks should never reach the ceiling or obscure sprinklers. The advice of experts such as the Fire Protection Association, where particular problems can be examined individually, remains the best precaution.

Lorne Barling

Why has IDC so many warehouses to its credit?

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Once the outline proposals have been finalised, IDC undertake detailed design work, construction and commissioning of

the warehouse—in fact a fully integrated approach to achieve the best solution. At all stages the client's own warehousing specialists are closely involved; as their experience of the storage needs of the product are vital to ultimate success.

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Banbury Tea Warehouses Limited
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Eastern Electricity Board
Green Shield Trading Stamp Company Limited
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The Post Office - Procter & Gamble Limited
The Robert Horn Group
G.D. Searle & Co Limited - Wang Europe NV



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Leaders in the industry

to know Clark Equipment (which seemed at one stage to be quitting U.K. manufacture but will more likely follow "Cag" and build up operations here substantially), Eaton Corporation, which used to use the Yale name, and Hyster.

These are just the manufacturers in Britain. All the world's major manufacturers have their agents in the U.K. even if they are not actually assembling trucks here. Hyster trucks, for example, are distributed and serviced in England and Wales by Barlow Myers, part of the South African group Barlow Rand, even though they are made in the U.K.

Turnover

There are about 30 significant crane makers in Britain but not all of them provide the overhead travelling cranes required in storage and warehousing. But it is in this sector of the crane market that you find the really small companies, about 150 of them, with turnovers of under £500,000 a year.

Clark Chapman is the U.K.'s biggest maker of cranes and can utilities, anything from a five-tonne overhead travelling type (Owen) to a 500-tonne steelworks ladle crane. Boss, Storage and Warehousing, Mont, companies would also seem likely to deal with companies like Herbert Morris, recently spurred back to life by a new venture here, management team, or Adamson at Tractors, Butterley, the old Adamson

Alliance concern which was literally pulled back from the brink of extinction a few years ago and now is thriving again. Adamson is part of the Norcross group. Also in this sector are J. H. Carruthers, the Scottish business which is part of the Burnham Oil group, and J. Smith (Keighley), owned by The W. Ward.

Representing the major overseas companies is Demag, the West German engineering concern which is part of the Mannesmann group (international sales over £2bn.). Demag Materials Handling has expanded its Banbury plant considerably over recent years and is now moving into other materials handling areas apart from cranes. It will also be offering a range of conveyors as well as its overhead travelling cranes in future.

In doing so it will provide competition in the supply of conveyors to the storage and warehouse industry by such U.K. manufacturers as Manufacturers Equipment, the "Rapid" concern owned by J. H. Fenner, and Marryat Group's subsidiary Marryat Handling. Acrow, which claims to be Britain's biggest supplier of construction equipment, is also in the business of providing conveyors and is also well known to the storage and warehousing industry because of the storage and racking products it manufactures.

Of the other companies in the

storage and racking business, among the U.K. leaders is Dexion-Comin International which in the summer of 1974 was taken over by Interlake Inc., an American steelmaker and manufacturer of storage and handling products. This caused some complaint from Wagon Industrial Holdings at the time because WIL, the Birmingham-based steel product group, owns Link 51, one of Dexion's main competitors. The protest from WIL was that, because the British Steel Corporation owned 20 per cent of Interlake, the BSC would be "moving into a manufacturing industry in direct competition with its own customers."

Benjamin Priest and Sons (Holdings) is also well represented in the storage and racking sector through its integrated Handling offshoot, while the J. Brockhouse group is in the field via its Finspa Engineering subsidiary.

Prominent

In the provision of distribution services the main companies also tend to be subsidiaries of bigger groups. For example, prominent in the field is SPD, which is run autonomously but is ultimately responsible to the Anglo-Dutch Unilever combine. Then there is Ocean Transport and Trading's subsidiary William Cory while Tate and Lyle Distribution immediately owns up to

Kenneth Gooding

[illegible]

